

**SMALL AND MEDIUM
ENTERPRISES IN KHARKIV
OBLAST:**

**ASSESSMENT AND
RECOMMENDATIONS**

Prepared for



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NOTE: The Urban Institute is entirely responsible for Chapter VII and related parts of the Executive Summary and policy suggestions. Ukrainian researchers did not participate in the review of local programs.

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ABBREVIATIONS

EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIU	Economist Intelligence Unit
EU	European Union
IFC	International Finance Corporation
KMCI	Kharkiv Management Consulting International
KRESF	Kharkiv Regional Entrepreneurship Support Fund
MSI	Management Systems International
NGO	non-governmental organization
SMEs	Small and medium enterprises—throughout the report, the term SME indicates both small and medium enterprises and entrepreneurs
TA	technical assistance
UAH	Ukrainian hryvnia (Ukrainian currency)
UI	Urban Institute
USAID	United States Agency for International Development
VAT	value added tax

DEFINITIONS*

entrepreneur	individual businessperson who operates without establishing a firm
hryvnia	Ukrainian currency, roughly equivalent to US\$0.18
large enterprise	firm with more than 250 employees
medium enterprise	firm with 51 to 250 employees
profit	total revenue minus total costs
small business	Small enterprises, entrepreneurs, and farms (as identified by the Law on State Small Business Support)
small enterprise	firm with 1 to 50 employees
turnover	total revenue
Verkhovna Rada	parliament of Ukraine

*These are the definitions used by the authors. The report indicates when other definitions are used in discussions.

Note on terminology

The term SME is used herein to denote small enterprises, medium enterprises, entrepreneurs, and noncorporate farms. Data sources of varying quality prohibited analyses of SMEs as defined herein. For this reason, Chapters I, V, VI, and VIII and the Policy Matrix discuss SMEs in general, while elsewhere, small enterprises are addressed separately. Every effort has been made to clearly identify the types of enterprises discussed in every chapter.

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EXECUTIVE SUMMARY

Introduction: The Role of Small and Medium Enterprises in Market Economies

Small and medium enterprises (SMEs) are vital to market economies worldwide. For example, SMEs provide more than half of all employment in the European Union and United States. SMEs dominate several sectors, providing more than 80 percent of employment in wholesale trade, retail trade, hotels and restaurants, construction, real estate, financial services, and professional technical and scientific services. SMEs also provide more than half of all employment in Ukraine, and the government increasingly assigns a high priority to them. For these reasons, this assessment sought to do the following:

- estimate the current state and economic contributions of SMEs in Kharkiv;
- examine the business climate and its relationship to the development of SMEs; and
- identify further reform that would have the most positive impact on the development of SMEs in Kharkiv and their contribution to the local economy.

Legal and Regulatory Framework for SMEs in Kharkiv Oblast

In general, the legal system in Ukraine is complicated, uncoordinated, and unnecessarily confusing. It is regularly cited as an obstacle to investment by domestic and foreign firms (EIU 2000; Senchuk and Yacoub 2000; Grey and Whinston 1999). By some indications, however, the legal environment for SMEs in Kharkiv Oblast and throughout Ukraine is rapidly improving. The **Law on State Support of Small Enterprises**, enacted on October 19, 2000, with the stated aim of overcoming economic crisis by defining the legislative basis for state support of small business, outlined a program of support for the Cabinet of Ministers of Ukraine to prepare and implement as well as similar programs for regional and local authorities to prepare and implement.

Methodology and Related Issues

This assessment reviewed previous efforts to assess businesses in Ukraine, employed various local experts and organizations, collected and analyzed official data, and conducted a survey of SMEs in Kharkiv Oblast. Analyzing information from a variety of sources significantly increased the insight provided by the assessment.

Researching SMEs in Kharkiv Oblast presented some challenges for traditional research methodology. During the past 10 years, various government agencies and documents have used different definitions of small enterprises. The assessment discovered no official definition, explicit or implicit, for medium enterprises; the government has not separately researched or reported on these. Varying and absent definitions severely impeded researchers' abilities to compare data from different times and places.

The informal (unofficial or gray) economy of Ukraine is quite large. According to the National Bank of Ukraine, 52 percent of the nation's money supply circulates without the banking system. Informal transactions account for 67 percent of net profit in the financial and banking sector. A report on businesses in Ukraine by Management Systems International (MSI) estimated that less than 25 percent of entrepreneurs and less than 40 percent of enterprises of one to five employees are officially registered. This assessment used the coefficients derived from MSI's research to estimate the sum of registered and unregistered SME activity.

SMEs in Kharkiv Oblast

Attempts simply to identify the number of SMEs in Kharkiv Oblast and the number of their employees highlight the methodological challenges discussed above. Official data sources

contradict each other and even themselves. A combination of the official data with estimates of informal employment leads to the conclusion that SMEs account for at least 45 percent of employment in the Oblast, and that is a very conservative estimate. There are at least 235,500 entrepreneurs and 15,411 small enterprises in the Oblast; no data could be found on medium enterprises (the local and oblast statistics department do not separate medium and large enterprises in their reporting).

To a large extent, Kharkiv SMEs concentrate themselves in the same sectors as SMEs in the European Union and United States, namely wholesale trade, retail trade, and general contracting. Kharkiv SMEs differ from SMEs in market economies, however, in that they are not concentrated in areas such as real estate, financial services, and professional and scientific services. The Oblast government directly provides many of these services—especially in real estate, in which it operates a near monopoly—and so it has effectively crowded out private SMEs.

Employment at large and medium enterprises in Kharkiv Oblast decreased more than 20 percent during 1995 to 1999. During roughly the same period (1996 to 2000), employment by small enterprises and entrepreneurs has more than compensated for this decrease. In addition, the sector distribution of the new employment is quite different from that of the lost employment, indicating structural shifts in the Oblast economy not only in terms of firm size but also in sector distribution.

Survey of SMEs in Kharkiv Oblast

The lack of specific data inspired the conduct of a survey by UI of SMEs in Kharkiv Oblast. The questionnaire for the survey included many of the same questions used in the earlier MSI survey, including the entire section on an "imaginary company" that facilitated surveying responses to questions on tax evasion, extortion, and other forms of corruption.

On many subjects, the results of the UI survey complemented the findings of earlier national surveys by MSI and the International Finance Corporation (IFC) as well as of conventional wisdom on SMEs. For instance, SMEs in Kharkiv Oblast provide many opportunities for women and part-time workers. Most SME transactions are with other companies and individuals, not with the government. The vast majority of SME transactions involve other economic actors within the Oblast. Nearly all their transactions are in cash, not in kind or on credit. Kharkiv SMEs rely on their own earnings for operating and capital funds and use their own equipment or that of their employees.

SMEs pay up to nine taxes and fees, which total more than 40 percent of total revenue for nearly 40 percent of surveyed firms. The central government has instituted an integrated tax system for small enterprises and entrepreneurs, but fewer than half of the surveyed firms participate in the system.

Obstacles to SME Development in Kharkiv Oblast

International donors and international and local press generally agree on the major obstacles to SME development in Ukraine. The UI survey confirmed that Kharkiv SMEs share these same obstacles. The most significant of them are closely related.

The tax system is an obstacle not only because of high tax rates, but also because it is complex, changes frequently, and facilitates corruption. SMEs identified frequently changing, or fishtail, legislation (including tax legislation) as the second most significant obstacle to their development. The next obstacle on the list, lack of working capital, clearly is a function of burdensome taxes and administrative controls. Administrative controls are implemented to a large

extent by the tax authorities. Legislation permits, or fails to prohibit or limit, various administrative controls. These obstacles combine in a regime that is debilitating to SME development. Most of these obstacles similarly affect oblasts of all regions and enterprises of all sizes in Ukraine.

The regime of administrative controls provides an environment conducive to corruption. More than half of surveyed firms report that they frequently or sometimes are asked for payments in addition to those legally established for permits, licensing, inspections, and so on. Another 10 percent report that they always are asked for additional payments. On average, these payments amount to 16 percent of each firm's profit.

After the Tax Administration, the Fire Brigade and the Sanitary and Epidemiological Service are the next most frequent inspectors. These two regulators also issue more permits to SMEs than any other regulators. There appears to be a simple circuit within the administrative system: Giving more permissions provides a fruitful ground for more inspections.

Review and Analysis of Existing Initiatives

Recent efforts by the central and Kharkiv Oblast governments in support of SMEs are encouraging. The current Oblast program is significantly larger than the previous and includes plans for the participation of several interested organizations. It also includes plans for expanded SME contributions to funding various activities. The national program was approved in late 2000 and includes some very significant improvements for SMEs, in particular, the identification of the regulatory environment as an obstacle to SME development. The Oblast program adopted many of the priorities of the national program and now more accurately identifies obstacles for SMEs.

Both the national and Kharkiv Oblast programs suffer from a lack of clarity in their design and implementation plan. For instance, the Oblast program lists many organizations as executors of particular subprograms, but it does not describe the specific tasks for each. In fact, it is not even clear that these organizations were consulted in the preparation of the program. The national law requires a great deal of regulations and procedures for its implementation. It is unclear how and when the government will take action on these.

Both programs indicate that governments of all levels still have not recognized the extent of the significance of small businesses and the size of the informal SME sector.

The regional program demonstrates a remarkable mismatch between the obstacles identified by SMEs and those identified by the program. For example, the existing tax system, which has been steadily ranked by SMEs throughout Ukraine as their most significant problem, has not been mentioned in the current program at all. The program does, however, promote many activities whose demand by small business is not documented and where governmental efficiency in delivering sound results is questionable, at least based on the experience of other countries.

While these programs propose government action in support of SMEs, other government actions and operations contradict the stated program objectives. For instance, at approximately the same time the central government prepared the National Program of State Support for Small Business, the cabinet adopted resolution no. 1755 of November 29, 2000, which established a uniform license fee of UAH 5,100 (Ukrainian hryvnia) for wholesale and retail trade in liquor, regardless of the quantity sold. If the government is serious in its efforts to support SMEs, it will have to work with those efforts in addition to passing legislation.

Suggested Direction of Efforts to Support SME Development

It appears that at the current stage, further progress in SME development depends quite remarkably on the ability of the Kharkiv Oblast government and the central government of Ukraine to make conceptual and policy adjustments that will respond more directly to needs of SMEs as these needs are viewed from inside the SME sector, not as they are viewed from the government.

These changes are best achieved by constructing a proper framework for SME operations. This construction process includes the following steps:

- Reducing the fiscal burden on SMEs
- Restructuring government regulation
- Creating conditions for integrating informal SME activities in the formal sector
- Restructuring government services from provider to enabler

None of the recommendations can be effectively implemented without coordination among all levels and branches of government and cooperation with the public at large. Each recommendation combines various specific tasks and presents opportunities for contributions by the United States Agency for International Development (USAID) and international organizations. The recommendations and specific tasks are summarized in a Policy Matrix at the end of the last chapter.

CHAPTER I
INTRODUCTION: THE ROLE OF SMEs IN THE ECONOMY

SMEs and entrepreneurs (SMEs¹) are vital to market economies worldwide. They play important roles in employment, overall production, provision of quality and diversity in services to the population, and public finance. For example, "Small and medium-sized enterprises have been central to the development of the EU [European Union] economy. According to 1995 Eurostat data, there were 18 million enterprises in non-agricultural sectors within the EU-15 [see Table 1], of which more than 99% were SMEs (Eurostat 1998). A total of 110 million people were employed in all enterprises, of which two-thirds were in firms with less than 250 employees [see Table 1]. SMEs also accounted for over half of the total turnover of enterprises" (EC 2000, 31).

Within the European Union (EU), SMEs account for more than 80 percent of the employment in several major sectors. Many of these are the same sectors in which SMEs dominate in terms of number of establishments in the United States. Wholesale trade, real estate, hotels/restaurants, financial support services, and construction are included in this category (EC 2000, 34; United States Census Bureau 1997, Table 1).

Country (EU-15)	Size of Enterprise					All SMEs	Large (more than 250 employees)
	Sole Proprietors (0 employees)	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)			
Austria	3.3	20.7	19.2	21.3		64.5	35.5
Belgium	19.7	26.1	15.4	11.4		72.6	27.4
Denmark	6.5	22.5	22.6	17.9		69.5	30.5
Finland	5.3	19.2	16.4	16.4		57.3	42.7
France	10.9	21.3	18.7	14.9		65.8	34.2
Germany	2.7	20.6	20.0	13.8		57.1	42.9
Greece	27.5	29.1	17.2	12.7		86.5	13.5
Ireland	4.1	19.3	22.8	22.4		68.6	31.4
Italy	10.9	36.9	21.4	10.7		79.9	20.1
Luxembourg	5.1	17.7	24.6	24.0		71.4	28.6
Netherlands	6.1	19.9	17.0	17.7		60.7	39.3
Portugal	11.0	27.0	22.8	18.4		79.2	20.8
Spain	20.0	27.5	19.0	12.9		79.4	20.6
Sweden	5.2	21.4	18.2	16.1		60.9	39.1
United Kingdom	12.3	16.6	15.3	12.6		56.8	43.2

Sources: Eurostat (from EC 2000, 32)

Within the United States, firms that have fewer than 500 employees account for more than half of total employment (see Table 2). In many sectors in the United States, nonemployers (or self-

¹ Throughout this report, we include individual entrepreneurs in our references to SMEs.

employed individuals) account for more than 80 percent of total establishments (establishments are firm locations; nationally, the ratio of establishments to firms is 1.06). These are mainly service sectors and include real estate and renting and leasing; professional, scientific, and technical services; educational services; arts, entertainment, and recreation; and other services not including public administration (1997 Economic Census, Nonemployer Statistics).

Table 2 Employment and Percentage of Employment, by Enterprise Size in United States , 1997 and 1998

Employment Size	Employment	Percentage	Cumulative Percentage
Total (employer firms 1998 and nonemployer firms 1997)	123,557,340	100.00	
Nonemployers (unincorporated self-employed), 1997	15,439,609	12.50	12.50
1 to 4 employees	5,584,470	4.52	17.02
5 to 9 employees	6,643,285	5.38	22.39
10 to 19 employees	8,047,650	6.51	28.91
20 to 49 employees	11,317,087	9.16	38.06
50 to 99 employees	8,060,527	6.52	44.59
100 to 499 employees	15,411,390	12.47	57.06
500 to 999 employees	5,547,037	4.49	61.55
1,000 to 1,499 employees	3,304,540	2.67	64.23
1,500 to 2,499 employees	4,211,469	3.41	67.63
2,500 to 4,999 employees	5,717,754	4.63	72.26
5,000 to 9,999 employees	6,086,847	4.93	77.19
10,000 employees or more	28,185,675	22.81	100.00

Source: Adapted from Statistics of U. S. Business, <http://www.census.gov/epcd/www/smallbus.html>, two tables: Employment Size of Employer Firms, 1998, and Employers and Nonemployers, 1997. The total for this table was created from the sum of the two tables from the Statistics of U. S. Business.

Note on "nonemployer" status: Nearly three-quarters of all U. S. business firms have no payroll. Most are self-employed persons operating unincorporated businesses and may or may not be the owner's principal source of income. Self-employed owners of incorporated businesses typically pay themselves wages or salary, so the business is an employer and included in the employer statistics. Because nonemployers account for only about 3 percent of business receipts, they are not included in most business statistics, for example, reports from the Economic Census.

International institutional donors assign a high priority to SMEs and have committed to support their development during reform and restructuring of countries in transition. In March 2001, the European Bank for Reconstruction and Development (EBRD) was preparing to implement a business project competition to assist in increasing the pipeline of SME loan applications to banks participating in the EBRD SME Credit Line to Ukraine. USAID, IFC, and the Ministry of Foreign Affairs of Norway (Norway) all have funded research on SMEs in Ukraine. Both the MSI and IFC surveys² identified SMEs as integral to the transition of Ukraine to a market economy.

² The USAID-funded survey was administered by Management Systems International (MSI), in conjunction with the Kiev International Institute of Sociology (KIIS), and is referred to as the MSI survey.

The MSI survey specifically found SMEs to be the most commercially oriented and dynamic enterprises in Ukraine. The MSI survey estimated that SME employment in Ukraine, as displayed in Table 3, is much greater than might be expected.

Employment Size	Employment	Percentage	Cumulative Percentage
Total	21,220,455	100.00	
Zero	2,654,084	12.51	12.51
1 to 5 employees	503,852	2.37	14.88
6 to 10 employees	853,403	4.02	18.90
11 to 50 employees	3,211,878	15.14	34.04
51 to 250 employees	4,161,270	19.61	53.65
250 or more employees	9,835,968	46.35	100.00

Source: Adapted from MSI Survey 1999 (MSI Table 1)

The central government of Ukraine increasingly recognizes the benefits of SMEs and has made some efforts to improve the SME climate. The most important of these efforts, the new National Program in Support of Small Business Development, is reviewed in Chapters II and VII. Other efforts include such key elements as simplification of taxation (1998); regularization of many regulatory steps, such as registration, licensing, and inspections (1998); and improving the legislation (1999).

In Kharkiv Oblast specifically, SME support efforts have culminated in the Regional Complex Program of Assistance to Small Enterprise Development in Kharkiv Oblast, most recently for 1999–2000 and 2001–2002. The concept of the program is built upon a clear and direct recognition of the importance of SMEs: “Small enterprise is no additional, but an independent factor of economic development that helps to reduce unemployment, activate innovative processes, develop competition, **and** supply various market sectors with goods and services.” The program is discussed in detail in Chapter VII.

Based on the recognition of the importance of SMEs in the Kharkiv Oblast, this assessment sought to do the following:

- estimate the current state and economic contributions of SMEs in Kharkiv;
- examine the business climate and its relationship to the development of SMEs; and
- identify further reform that would have the most positive impact on the development of SMEs in Kharkiv and their contribution to the local economy.

Another major survey was funded by IFC and Norway. It was administered by the Center for Social Expertise and Forecasting of the Institute of Sociology in Kiev and is referred to as the IFC survey.

CHAPTER II LEGAL AND REGULATORY FRAMEWORK OF SMEs IN KHARKIV OBLAST

In general, the legal system in Ukraine is complicated, uncoordinated, and unnecessarily confusing. It is regularly cited as an obstacle to investment by domestic and foreign firms (EIU 2000; Senchuk and Yacoub 2000; Grey and Whinston 1999). By some indications, however, the legal environment for SMEs in Kharkiv Oblast and throughout Ukraine is rapidly improving. The **Law on State Support of Small Enterprises**, enacted on October 19, 2000, with the stated aim of overcoming economic crisis by defining the legislative basis for state support of small business, outlined a program of support for the Cabinet of Ministers of Ukraine to prepare and implement and similar programs for the regional and local authorities to prepare and implement.

This law included the following goals of state support for small business:

- creation of conditions for positive structural changes in the Ukrainian economy;
- assistance to the forming and developing of small businesses;
- support from state producers; and
- formation of conditions for supplying the population of Ukraine with employment and with the creation of new workplaces.

The resulting national program is even more ambitious and innovative. On December 21, 2000, the Verhovna Rada and the President of Ukraine approved the **Law on the National Program in Support of Small Business Development in Ukraine**, No. 2157-III, the first law of Ukraine that acknowledges the significant state interference in, and restriction of, small business in Ukraine. More significant, this law outlines specific measures to reduce the most difficult problems that small businesses currently face. The law calls for improvement of the legal and normative base to regulate the activities of public agencies and their officials in the small business sphere (Article III-1-4) and states that introduction of a "purposeful, consistent and predictable common public regulatory policy in the sphere of entrepreneurship is one of the main tasks of the program" (Article III-2-1).

The law's plan for implementation of a new public regulator policy includes the following:

- public participation and interagency coordination in planning and preparing improvements in regulatory activity;
- evaluation of the effects and social results of regulatory activities;
- legislative improvements to decrease excessive state interference in entrepreneurship;
- coverage of regulatory problems in mass media and participation of the Entrepreneurs Union and citizens in discussing and solving the problems;
- analysis and publication of the results of these efforts; and
- simplification of permit and registration processes.

Again, this is the first time issues such as limiting regulatory control of small business have been included in a law of Ukraine. What the potential effects of the chosen implementation methods are is a separate issue discussed in Chapter VII.

In addition to directing the Cabinet of Ministers to prepare and implement a national program, the **Law on State Support of Small Enterprises** reaffirms the integrated taxation system for small businesses that was established by the **Presidential Decree on Alternation of the [Previous] Presidential Decree on Simplification of the Taxation System, Accountability and Reporting for Small Business Subjects**, No. 746/99 from June 28, 1999. The integrated system permits small businesses and entrepreneurs to pay either a single or a simplified tax. According to the

decree, the *single tax* is available to entrepreneurs who operate without creating a legal entity, have 10 or fewer employees, and have an annual sales revenue of UAH500,000 or less. Local councils determine the single tax rate within the legally defined parameters of UAH20 and UAH200 based on the types of activities to be taxed. Individual entrepreneurs who opt for the single tax are exempted from a variety of taxes and fees provided by the **Law on the System of Taxation**. They pay their single tax to the State Treasury of Ukraine, which then distributes the revenues in the following manner:

- Forty-three percent to the Oblast budget
- Forty-two percent to the Pension Fund of Ukraine
- Fifteen percent to obligatory social insurance

The *simplified tax* is available to legal entities with 50 or fewer employees. Legal entities that opt for the simplified taxation system independently choose one of the following rates:

- Six percent of sales revenue excluding excise duty where value added tax (VAT) is paid separately
- Ten percent of sales revenue, excluding excise duty where VAT is included

The simplified tax is paid to the State Treasury of Ukraine, which then distributes the revenues in the following manner:

- Twenty percent to the State Budget of Ukraine
- Twenty-three percent to the local budget
- Forty-two percent to the Pension Fund of Ukraine
- Fifteen percent to obligatory social insurance

Legal entities that pay the simplified tax are exempt from a variety of taxes and fees provided by the **Law on the System of Taxation**.

According to Articles 5 and 6 of the decree on taxation, sole proprietors who operate in marketplaces and pay marketplace fees may choose to pay a *fixed tax*. The amount of the fixed tax is from 20 to 100 hryvnias a month. The amount increases by 50 percent for each additional employee. Individuals who choose to pay the fixed tax may have no more than five employees and may not have recorded income that is equivalent to more than 7,000 annual salaries at minimum wage.

The State Treasury of Ukraine receives revenues from all business income taxes irrespective of the taxation system used. Local governments determine the rates of only a few taxes and fees that affect businesses. The Cabinet of Ministers **Decree on Local Taxes and Gatherings**, No. 56-93 from May 20, 1993, limits the advertising tax to 0.1 percent for a single advertisement and 0.5 percent if the advertisement is to be displayed for a long period of time. The same decree limits sales tax on imported goods to 3 percent. Changes in other business taxes must be effected at the national level. Table 4 lists laws and decrees that affect enterprises in Kharkiv Oblast.

Table 4 Chronology of Laws and Decrees of Ukraine Affecting Enterprises in Kharkiv*		
Effective Date	Title	Number
December 21, 2000	Law on National Program in Support of Small Business Development	2157-III
October 19, 2000	Law on State Support of Small Enterprises	2063-III
September 30, 2000	Cabinet of Ministers Decree on Realization of the President's Decree on Assistance in Personnel Training for the Sphere of Business (no. 849, July 3, 2000)	1358
September 21, 2000	Head of Oblast Administration Decree on Organizational and Practical Measures on Implementation of Presidential Decree on Measures on Providing Entrepreneurship Support and its Further Development (No. 906, July 15, 2000)	860
July 15, 2000	Decree on Measures on Providing Entrepreneurship Support and its Further Development	906
July 3, 2000	Decree on Assistance in Personnel Training for the Sphere of Business	849
July 1, 2000	Law on Licensing Certain Types of Economic Activities	1775-III
May 11, 2000	Law on Special Investment Conditions in the Territory of Kharkiv	1714-111
June 28, 1999	Decree on Alteration of the Presidential Decree on Simplification of Taxation System, Accountability and Reporting of Small Business Subjects (July 3, 1998, No. 727)	746/99
November 17, 1998	Decree on Licensing Activities of Economic Subjects in the Area of Natural Monopolies	1257/98
July 23, 1998	Decree on Some Measures for Deregulation of Entrepreneurial Business	817/98
July 3, 1998	Decree on Simplification of Taxation System, Accountability and Reporting of Small Business Subjects	727
May 25, 1998	Cabinet of Ministers Decree on State Registration of Subjects of Entrepreneurial Activity	740
May 22, 1997	Law on Taxation of Company's Profits	283/97-BP
April 3, 1997	Law on Value Added Tax	168/97-BP
March 19, 1996	Law on Regime of Foreign Investment	93/96
February 19, 1994	Decree on the Regulation of Investment Funds and Investment Companies	55/94
May 20, 1993	Cabinet of Ministers Decree on Local Taxes and Gatherings	56-93
September 19, 1991	Law on Economic Associations	1576-XII
September 18, 1991	Law on Investment Activity	1560-XII
June 25, 1991	Law on Taxation System	1251-XII
March 27, 1991	Law on Enterprises	887-XII
February 7, 1991	Law on Property	697-XII
February 7, 1991	Law on Entrepreneurship	698-XII
*NOTE: This table is by no means a comprehensive list of all laws and regulations affecting enterprises in Kharkiv. The table contains the most significant laws and decrees that the Assessment team encountered during their research.		

Registration

All businesses, including sole proprietors, are legally required to register with the state as Subjects of Entrepreneurial Activity. Small businesses most commonly register as limited liability companies. The minimum volume of authorized capital for these companies is the equivalent of 100 salaries at minimum wage. Owners of limited liability companies are well protected from financial risk.

Many SMEs, especially individual entrepreneurs, do not register themselves or report their incomes. While it is legal not to register some types of small enterprises, it is, of course, difficult to collect information on such enterprises. The methodological implications for this assessment of this "gray" or unregistered economic activity are discussed in Chapter III.

License

Approximately 60 to 65 percent of SMEs require at least one license. Some activities require five or more licenses. The **Law on Licensing Certain Types of Economic Activities** (No. 1775-III, July 1, 2000) lists 60 types of activities that require licenses. Beginning in at least 1997, the central government attempted to streamline and improve the licensing system. Efforts included amendments to the **Law on Entrepreneurship** and passage of the **Law on Licensing of Certain Types of Economic Activity**, which includes a list of specific operations requiring a license, limited mostly to activities that are potentially harmful to health and environment. The time spent on obtaining licenses has decreased as a result of these efforts. The procedures and administrative arrangements among ministries and their local branches and local governments required by the new law, however, have not yet been implemented (Grey and Whinston 1999, 41; Senchuk and Yacoub 2000, 17).

Permit

Most small businesses require permits in addition to licenses for their operations. Permits are most often required by the Fire Brigade, Sanitary and Epidemiological Service, Labor Protection Committee, Architecture and Construction Inspection, Energy Saving Inspectorate, Environmental Safety Department, and Land Resources Department.

Inspection

Most of the agencies that issue business permits are among the most frequent business inspectors, which also include various tax authorities and the police. Nearly every firm in Ukraine is inspected at least once each year; most are inspected more than seven times each year. The incidence and cost of business inspections is debilitating. While there is some evidence of improvement in this area, inspections still are a major obstacle to the development of small businesses in Ukraine (Grey and Whinston 1999, 44–45). Inspections are discussed in detail in Chapter VI.

CHAPTER III METHODOLOGY AND RELATED ISSUES

This assessment's methodology integrated several approaches and tools. First, the assessment identified, studied, and used results of previous international studies on the status of small business in Ukraine and a range of related reform issues. Within this class, the most important reference sources were *The State of Small Business in Ukraine: An IFC Survey of Ukrainian Small Enterprises* (June 2000)—the IFC survey—and *A Survey of Business in Ukraine* (Management Systems International, October 1999)—the MSI survey.

Second, in addition to employing the Urban Institute's staff, the assessment employed various local experts to assist in research, data collection, and analysis. These included experts in law, SMEs, and survey research. In working with these groups, the assessment accessed much more information than could be gained from working with just expatriate experts or one local group. Sharing research results among the groups enabled each researcher to build on the other research being conducted in parallel. The variety of perspectives contributed to a more holistic analysis of the small business environment in Kharkiv Oblast.

Third, quantitative data was collected from various sources, combined, and analyzed to form an initial sketch of small business in Kharkiv Oblast. The assessment aggressively sought data and secondary indicators on SME characteristics that are difficult to measure, such as informal employment. In particular, the Assessment relied on the Official Oblast Data Book of the Kharkiv Administration Department of Statistics. When appropriate, U.S. and EU statistical sources were referenced to provide comparative data.

Fourth, a special survey of SMEs in Kharkiv Oblast was designed and conducted (its methodology and results are detailed in Chapter V). A focus group for clarifying some positions indicated by the survey results was also designed and conducted. Finally, for presenting recommendations, the format of a “policy matrix,” which often is used by international donor organizations for presenting reform recommendations, was employed.

Two issues that severely impede quantitative assessments of the role of small businesses in Ukraine should be mentioned here.

Varying Definitions and Understandings of SMEs

The **Law on Enterprises in Ukraine** (1991) defined an enterprise as small depending on its number of employees and industry. Several presidential decrees in 1998 defined small enterprises as “registered physical and legal persons of any organizational and juridical form and property category with labor force up to 50 persons and with annual sales proceeds quantity up to 10 million UAH.” The **Law on State Support of Small Enterprises**, enacted on October 19, 2000, identifies entrepreneurs (individuals registered as businesses) and juridical persons with not more than 50 employees and not more than €500,000 gross income as *small business subjects*. The law's final provisions indicate that it should prevail in discrepancies with earlier legislation, leading to the conclusion that this definition of small enterprises is to serve as the standard throughout Ukraine.

The State Statistics Committee, however, has been using its own definition of small enterprise (Committee's Decision # 399 of December 1, 1998), and it remains to be seen if it will adopt the definition from the recent law. Enterprises identified as small by the Statistics Committee range in number of employees from 10 to 50, depending on industry. For example, software, real estate, and fishing enterprises may have no more than 10 employees to be classified as small. In the

printing and communications industries, up to 20 employees are permitted, and in the “municipal economy” or agriculture classes, up to 50 employees would still fit the small enterprise status. Data on individual entrepreneurs is separately reported by the state statistics system.

This assessment found no implicit or explicit definitions of medium enterprises in official documents. This phenomenon is not unique to Kharkiv Oblast or Ukraine. From the tables included in Chapter I, it is apparent that Eurostat and MSI both use 250 employees as a parameter for enterprise size, but the U. S. Census Bureau does not, thereby preventing direct comparisons. The IFC and many other organizations also use 250 employees as a parameter, and medium enterprises generally are defined as those with 51 to 250 employees.

Varying definitions of SMEs within and without Kharkiv prevent standard reporting and monitoring on SME activity. The new **Law on State Support of Small Enterprises** attempts to clarify the definition of small enterprises; it is hoped that the Oblast Statistics Committees will incorporate this definition in its reporting. It and other agencies and organizations also should report information on medium enterprises, as defined by international convention.

Substantial Overlap with the Gray Economy

The informal (unofficial or gray) economy of Ukraine is huge. According to the National Bank of Ukraine, 52 percent of the nation's money supply circulates without the banking system. Informal transactions account for 67 percent of net profit in the financial and banking sector.

The inadequate legal framework, controlled money circulation, and high tax burden all motivate enterprises to conduct their transactions in an unofficial manner. This happens in several ways. Some enterprises operate without registering themselves, and so conduct all of their transactions in the gray economy. Registered companies may fail to report payments to workers (to avoid social taxes) and sales (to avoid profit taxes). Also common is channeling of some portion of the whole production cycle through cash transactions with suppliers and consumers/clients.

These methods are common to enterprises of all sizes, but evidence suggests that they are most commonly used by small enterprises. For example, the MSI survey estimated that only 24.6 percent of entrepreneurs in Ukraine were registered. The amount increases to only 37.6 percent for enterprises of one to five employees. Table 5 indicates that entrepreneurs and enterprises of one to five employees account for the vast majority of employment at unregistered companies. It also is likely that there are unreported employees at registered enterprises, though this assessment found no estimates of such employment.

There are several potential reasons for such a high percentage of SMEs operating in the informal sector, or gray economy. The MSI and IFC surveys both found SMEs to sustain a higher inspection burden than large enterprises. Transactions with smaller numbers of people are easier to conceal than those involving hundreds of people. Also, SMEs tend to complete more transactions in cash (rather than on credit, in-kind, or by barter), which also facilitates concealment from authorities.

Table 5 Estimated Employment at Unregistered Enterprises in Ukraine, 1999

Class Size	Estimated Number of Firms	Estimated Employment	Percent of Firms Registered	Employment at Unregistered Enterprises	Coefficient to Calculate Total Employment Based on Registered Employment
	1	2	3	4	5
Zero	2,651,433	2,651,435	24.6	1,999,180	4.06
1 to 5 employees	148,976	516,947	37.6	322,275	2.66
6 to 10 employees	104,608	850,460	94.1	50,177	1.06
11 to 50 employees	123,757	3,189,226	99.5	15,946	1.01
51 to 250 employees	33,169	4,206,444	99.5	21,032	1.01
250 plus employees	10,851	9,822,542	99.4	58,935	1.01
Total	3,072,794	21,237,054		2,467,545	1.13
<i>Source: MSI 1999 survey and authors' calculations.</i>					

CHAPTER IV
SMEs IN KHARKIV OBLAST

Employment

According to the *Regional Program of Small Entrepreneurship Development in Kharkiv Oblast for the Years of 2001-2002*, as of January 1, 2000, 108,500 people were employed by small enterprises,³ 58,400 people were self-employed entrepreneurs, 40,900 people were freelance workers, and 2,100 people worked on small, private farms.⁴ According to Dergcomstat State Statistics, as of January 1, 2000, 69,200 people were employed by small enterprises. Both of these sources rely on information submitted to the Oblast Statistics Committee by registered small enterprises and entrepreneurs. Unfortunately, this assessment found no sources of information on employees of medium enterprises in Kharkiv Oblast.

The number of people actually employed by small enterprises in Kharkiv Oblast probably is much higher for two reasons: first, because many registered enterprises do not report all of their employees; second, because many enterprises, and even more entrepreneurs, simply are not registered at all. The MSI report estimated the extent of unregistered employment among entrepreneurs and enterprises of all sizes (see Table 6).

Table 6 displays the result of applying the coefficients derived for the national level MSI survey to the data from the Kharkiv regional program. Unfortunately, the assessment did not identify data on medium enterprises in Kharkiv Oblast, so we cannot make full use of MSI's coefficients. The analysis indicates that at least 399,008 people in Kharkiv Oblast are employed as entrepreneurs or by small enterprises.

Type of Small Enterprise/ Entrepreneur	Registered Employment	Coefficients	Projected Total Employment
Small Enterprises	108,500	1.09	118,610
Entrepreneurs	58,400	4.06	237,398
Freelance Workers	40,900	NA	NA
Private Farmers	2,100	NA	NA
<i>Total</i>	<i>209,900</i>		<i>at least 399,008</i>
Total Employment	1,403,401	1.13	1,587,900
Percentage of Total Employment	15		at least 25

³ The document references the new law on small enterprises, so it presumably uses the law's definition of 50 or fewer employees.

⁴ As if to underscore the problem with data collection and clarity, the summary table at the beginning of this very same document indicates that in Kharkiv Oblast, 116,000 people are employed by small enterprises and 63,700 people are self-employed.

Source: Regional programs (see KRESF 1999 and 2000) and author calculations using MSI coefficients

The analysis also indicates that small enterprises and entrepreneurs account for at least 25 percent of total employment in the Oblast. Assuming that the percentage of employment provided by medium enterprises is the same in Kharkiv Oblast as for the country leads to the conclusion that SMEs in Kharkiv Oblast account for at least 45 percent of all employment. This is a conservative estimate, especially because, according to the regional program, the average number of small enterprises per person is higher in Kharkiv Oblast (4.5) than in Ukraine (4.0).

Employment at large and medium enterprises (the official data does not separate them) in Kharkiv Oblast decreased by 227,231 from 1995 to 1999 (Vroman 2001). During roughly the same period (1996 to 2000), the number of registered small enterprises increased more than 60 percent to 14,100 and the number of registered entrepreneurs increased nearly 40 percent to 58,000. The findings on unregistered small enterprises and entrepreneurs from the MSI survey suggest that totals in these categories are closer to 15,411 and 235,480. So the loss of employment at large and medium enterprises has been more than compensated for by increased employment among entrepreneurs and small enterprises, although much of this employment is unregistered and so does not benefit the state treasury.

Year	Number of Registered Small Enterprises	Number of Registered Entrepreneurs	Projected Total Number of Small Enterprises	Projected Total Number of Entrepreneurs
1996	8,793	41,485	9,611	168,429
1998	10,139	45,800	11,082	185,948
2000	14,100	58,000	15,411	235,480

Source: Regional programs (see KRESF 1999 and 2000) and author calculations using MSI coefficients

Sector Distribution

Kharkiv SMEs are most active in wholesale trade, retail trade and building, developing, and general contracting. They are also very active in food manufacturing; professional, scientific, and technical services; apparel manufacturing; information services; and repair and maintenance. The same sectors prove attractive to SMEs in the European Union and United States, but the list would include additional sectors, mostly a wide array of other services, such as real estate, financial, and educational. The fact that the public sector in Kharkiv Oblast now provides many of these services is the most likely reason SMEs have not thrived in these sectors. This is especially a concern because the number of employees of the Oblast government increased from 4,151 to 33,389 during 1995 to 1999 (Vroman 2001).

The concentration of Kharkiv SMEs in certain sectors is very significant when examined in light of the employment shifts discussed above. Not only are employees experiencing a general change in the sizes of their employers, but also in the sectors of their employers. Decreased employment at large and medium enterprises in the sectors of industry, transportation, education, and culture and arts represents a decrease not only in the employment at large and medium enterprises in these sectors, but also in total employment in these sectors. Similarly, increased employment at small enterprises in the retail trade and food services sector represents an increase not only in

employment by small enterprises in this sector, but also an increase in total employment within this sector and a structural shift that favors this sector.

Science and scientific services (research and development, in American terminology) deserve a separate note. Given the existence of a broad range of scientific research and education centers in Kharkiv, this field is especially important from both economic and physiological points of view. Available data indicates that the sector is restructuring better than many other areas of economic activity. Within this sector, employment at large and medium enterprises declined by almost 14,000, but employment at registered small enterprises amounted to more than 9,000. Including employment at unregistered small enterprises brings the estimated total to between 22,000 and 24,000.

Contribution in Sales and Public Finance

According to the regional program, the volume of sales by small enterprises is estimated at 5661.8 million UAH, or 36.8 percent of total sales generated in Kharkiv Oblast in 1999, which is a very substantial portion (KRESF 2000).

According Oblast budget data for 2000, small business (see definitions) provided at least 12 percent of the general fund revenues of the Oblast budget. (This account is partial because small enterprise contributions to several budget categories—such as profit tax, payment for land, and municipal rent payments—cannot be separated from total contributions.) The simplified taxes alone (see Chapter II) accounted for approximately 6.5 percent of the general fund revenues. Small businesses also generated UAH 216.3 million of earnings to the budgets of all levels in 2000.

CHAPTER V

SURVEY OF SMEs IN KHARKIV OBLAST

Methodology

The limited availability and reliability of data on employment and business in Kharkiv Oblast and the lack of a previous Kharkiv-specific survey inspired the collection of primary data from SMEs in Kharkiv Oblast. The UI survey sought to test the extent to which SMEs in Kharkiv Oblast resemble those of the rest of Ukraine and the world and to identify a range of other characteristics of SMEs in Kharkiv Oblast. The questionnaire from the 1999 MSI survey provided the main example for the questionnaire used in Kharkiv. It was revised in response to critiques by several researchers in both the United States and Ukraine who were experienced in surveying businesses in transition economies.

The MSI questionnaire included a section that asked participants to respond to questions about an imaginary firm. This technique allows surveyors to ask questions about sensitive issues, such as corruption and tax evasion, without discomforting survey participants. This section and several other questions from the original questionnaire remained, to ensure comparability between the Kharkiv survey and the national survey conducted by MSI.

Because the survey included only SMEs, the results do not provide opportunities to compare large enterprises and SMEs in Kharkiv, but the results do support the findings of other surveys, specifically the finding that SMEs represent the newest, most market-oriented and most sustainable portion of the local economy (for example, Grey and Whinston 1999, xiii-xiv).

A group of potential survey participants was randomly selected to ensure a representative sample of enterprises in Kharkiv Oblast. The proportionality of the sample to the actual industrial distribution of enterprises in Kharkiv Oblast was confirmed by comparison with several databases.

The Urban Institute, the Kharkiv City Donation Fund, and the Kharkiv Regional Entrepreneurship Support Fund developed a survey administration plan that ensured quality and anonymity. The survey was conducted in January 2001 in Kharkiv city and four Oblast district centers: Dergachi, Kupyiansk, Pervomaisk, and Chuguev. Kharkiv City Donation Fund administered the survey, with assistance and technical support from the Kharkiv Regional Entrepreneurship Support Fund and the Main Economic Department of Kharkiv Oblast.

Staff of Razvitie (Development) Fund and staff of Kharkiv Regional Entrepreneurship Support Fund distributed questionnaires to 200 SMEs by mail or carrier and followed up with participants who did not return their completed questionnaires within five days. Each live interview required approximately 30 minutes. Most respondents were enterprise managers or their deputies. In some cases, commercial or financial directors or chief accountants were polled (if they could assess the real enterprise situation and its development of future prospects). The survey resulted in completed questionnaires from 122 SMEs, which proved proportional in size and industry to the entire population of SMEs in Kharkiv Oblast (see annex 3 for details).

General Results

The average age of SMEs in Kharkiv Oblast is approximately five years, with a concentration of new registrations since 1996. Very few SMEs were established prior to 1988. This finding is similar to that of the MSI survey, which found that 75 percent of SMEs were new, compared to less than 17 percent for large enterprises (Grey and Whinston 1999, 15). It should be mentioned, however, that the majority of enterprise managers and entrepreneurs are not beginners, but people

who carried out business activity earlier and have established new companies or have changed the organizational form of their enterprises (requiring re-registration) to take advantage of the simplified system of accounting and reduction of authorized capital expenses.

Kharkiv SMEs are most active in wholesale trade, retail trade and building, developing, and general contracting. They also are very active in food manufacturing, professional, scientific and technical services, apparel manufacturing, information services, and repair and maintenance. Most SMEs do not limit themselves to one activity, but diversify to other activities.⁵ Local and international programs have recognized the concentration of SMEs in the trade sectors of Kharkiv and Ukraine (KRESF 1999-2000, pp. 5-6; Senchuk and Yacoub 2000, 9).

SMEs are most likely to register as limited liability companies (42.9 percent). This can be explained by the low minimum volume of authorized capital required for such an enterprise (it is equal to 100 annual salaries of minimum wage) and, as a result, lower financial risk for owners of limited liability companies.

Contributions to the Local Economy

On average, the full-time staff of SMEs is 46 percent women. More than 40 percent of surveyed firms engage part-time employees in addition to their full-time employees. Most open positions are filled through personal recommendations and networks. Only 16 percent of surveyed firms advertised open positions in newspapers or other media.

The vast majority of Kharkiv SMEs pay no portion of wages in kind. Wages of only 20 percent of the surveyed firms are in arrears, most between one and two months, which is better than the national averages for small (37 percent) and large (70 percent) firms in Ukraine (Grey and Whinston 1999, xiv).

Kharkiv SMEs have large and diverse client bases made up of individuals, corporations, and government entities. Only 12 percent of surveyed firms report that any one of their clients consumes more than 50 percent of their product, with nearly half reporting that any one client consumes less than 20 percent of their product. The market that Kharkiv SMEs face for supplies is a little tighter, but not much. Only 14 percent of surveyed firms report that they purchase more than 50 percent of their inputs from a single supplier, while more than half report that any single supplier provides less than 30 percent of their inputs. Again, this finding is similar to those of national studies (e.g., Grey and Whinston 1999, 108). Table 8 shows the types of clients and suppliers of Kharkiv SMEs.

SMEs are integral to the local economy, not only in terms of employment, but also in terms of production. The chart below illustrates the strong local orientation of the Oblast's SMEs. Recalling the activities on which these firms concentrate (wholesale trade, retail trade, building, developing and general contracting, food manufacturing, professional, scientific and technical services, apparel manufacturing, information services, and repair and maintenance) further stresses their role in distributing goods and services throughout the local economy.

Table 9 shows that the supplier base of SMEs is more geographically diverse than the corresponding client base. This indicates that SMEs are more responsible for importing goods and services to Kharkiv Oblast than for exporting the Oblast's products elsewhere. It is possible that large enterprises in Kharkiv offset this SME trade imbalance.

⁵ This is unusual for countries with developed market economies, but very typical for countries in transition where diversity is needed for survival even at the level of small enterprises.

Table 8 Types of Clients and Suppliers of SMEs in Kharkiv Oblast		
Type	Average Percentage* of Goods and Services	
	Produced for Clients	Obtained from Suppliers
Individuals	49	25
Companies	36	73
Government, government agencies, and budgetary organizations	8	1
<p>*Numbers indicate average percentage, weighted by frequency of responses, of the pool of firms that answered the six relevant questions. Each type (individuals, companies, government) was a separate question for each category (clients and suppliers). Different numbers of firms answered each of the eight questions; the responses to one are independent of the responses to another (which is why the percentages for each category do not total 100). One hundred percent of the surveyed firms answered at least one of the questions on clients and eighty-four percent answered at least one of the questions on suppliers. For more detailed information, see responses to questions 41 to 48 in annex 3.</p>		

Table 9 Locations of Clients and Suppliers of SMEs in Kharkiv Oblast		
Region	Average Percentage* of Goods and Services	
	Produced for Clients	Obtained from Suppliers
Kharkiv city	60	50
Kharkiv Oblast (excluding the city)	24	20
Rest of Ukraine (excluding Kharkiv Oblast)	13	18
Russia and other countries of the former Soviet Union	2	10
Other countries	0	2
<p>*Numbers indicate average percentage, weighted by frequency of responses, from the pool of firms that answered the 10 relevant questions. Each region was a separate question for each category (clients and suppliers). Different numbers of firms answered each of the eight questions; the responses to one are independent of the responses to another (which is why the percentages for each category do not total 100). Ninety-two percent of the surveyed firms answered at least one of the questions on clients and eighty-one percent answered at least one of the questions on suppliers. For more detailed information, see responses to questions 41 to 48 in annex 3.</p>		

More than two-thirds of the surveyed firms expect to increase the amount and type of goods and services they produce, as well as their revenues, in the coming year. In the six months prior to the survey, 36 percent of SMEs increased the number of their employees and half reported unchanging employment levels.

Assets, Investments, and Capital

Almost half of the surveyed firms made capital investments in equipment during the previous year. One-fifth invested in (purchased or improved) buildings. No firms reported investing in land. The average capital investment as percentage of total revenue was 28 percent. Retained income is the main source of operating funds (71.71 percent was the average response in the survey) and capital investments (71.25 percent was the average response in the survey) for Kharkiv SMEs. Foreign and domestic investment played almost no role in firm investments.

Loans provide significant funds for operations and investments: an average of 12 percent of starting capital and 14 percent of capital investment; however, this amount is far below its potential. The lending environment in Kharkiv Oblast is unfavorable, characterized by costly and otherwise burdensome credit provision terms and the lack of a legislative basis for microcrediting. Although a special regime of investment in priority sectors of the Oblast economy began in January 2000, large investment projects in which SMEs are unlikely to participate are favored (see the **Law on Special Investment Conditions in the Territory of Kharkiv**, No. 1714-III, enacted May 11, 2000).

SMEs in Kharkiv Oblast are sustainable because they rely on their own resources. For the most part, these firms use their own equipment or rely on their employees' equipment, indicating significant personal investments. Most firms that do not own their equipment rent it from individuals or other companies. Forty percent of the surveyed firms use buildings or premises that are owned by either the firm or individuals working for it. More than 40 percent of surveyed firms use buildings or premises owned by other companies.

Participation in Industry Organizations

Fewer than 30 percent of Kharkiv SMEs report membership in commerce and other business associations. This finding is similar to that of MSI, which also found evidence that firms are unlikely to join associations because they do not view involvement as worthwhile and suspect they will not receive useful services from these associations. More than 60 percent of SMEs, however, are members of trade unions. This assessment did not identify reasons for membership in trade unions.

This situation provides an opportunity for effective reform and technical assistance. Establishing capacities within associations to deliver services needed by SMEs would encourage enterprises to join associations and further promote business development. See annex 1 for details.

Taxes and Fees

Domestic and international firms regularly cite the tax environment in Ukraine as an obstacle to investment (Senchuk and Yacoub 2000; EIU 2000; Grey and Whinston 1999). Chapters VI and VII discuss details of various aspects of the tax environment and its role in the development of SMEs. Only 21 percent of survey participants answered the question regarding the number of taxes and fees their companies pay, so this does not provide a good basis for analysis. According to official sources, most SMEs in Kharkiv pay up to nine taxes and fees. The government has introduced various tax options to provide relief to small businesses. The integrated tax system was established by a presidential decree of June 28, 1999, and so was effective for more than a year at the time of our survey. Fewer than half of surveyed firms, however, participated in the integrated tax system: 20.87 percent of respondents pay 10 percent of total revenue including VAT; 8 percent pay 6 percent of total revenue including VAT; and 17 percent pay the single tax for individual entrepreneurs or agricultural enterprises.

When asked to estimate tax payments, more than 24 percent of respondents reported that they pay 1 to 10 percent of total revenue, while about 11 percent reported that they pay more than 60 percent of total revenue. Almost 40 percent of respondents paid more than 30 percent of total revenue in taxes and fees, as the pie chart that follows shows. Given this high tax burden, which in reality is even higher because formal payments are supplemented by extortion by government officials (16 percent of profit on average), it is understandable that SMEs prefer not to use true figures in taxation reports and to use “gray business” schemes. In particular, when asked about what portion of required taxes and fees an imaginary SME really pays, the respondent estimated that on average SMEs pay approximately 40 percent of what they are legally required to pay.

An affordable level of total taxes and fees, as viewed by survey participants, is presented in the pie chart below. This chart may perhaps provide some guidance for further efforts to improve the business climate in the Kharkiv Oblast through reducing a fiscal burden of SMEs.

More than 60 percent of surveyed firms report that their overall tax situation did not improve from 1999 to 2000. Only 13 percent of surveyed firms perceived an improvement. Firms identified the value added, payroll, and profit taxes as the most burdensome. As the pie chart illustrates, there was a wide range of responses to the question of the percentage of total revenue actually paid in taxes and fees. The tax administration and inspection system is further discussed in Chapter VI.

Chart 1

Actual Tax and Fee Rate

What percentage of turnover do your company's tax and fee payments represent?

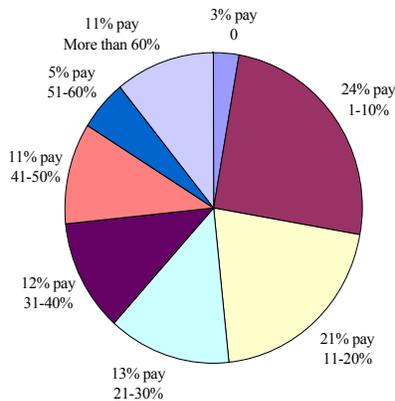
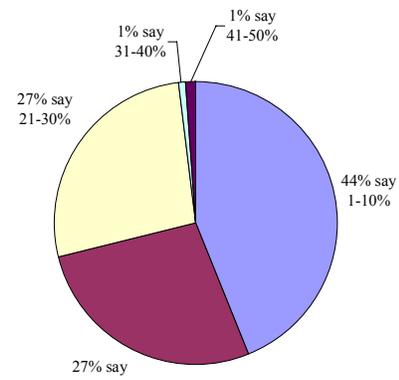


Chart 2

Rational Tax and Fee Rate

What would you consider a rational tax and fee rate for SMEs?



CHAPTER VI OBSTACLES TO SME DEVELOPMENT IN KHARKIV OBLAST

There are at least two perspectives on the problems SMEs in Ukraine face. The first perspective is that of SME managers and owners, as revealed in various studies, such as the MSI, IFC, and UI surveys. The second perspective is that of the government and is reflected in programs to support SMEs. The differences between these two perspectives are quite significant, and the repercussions of those differences are even more so.

Table 10 presents the most significant problems for SMEs in Kharkiv Oblast in 2000 according to their owners and managers. In general, the table indicates that the most pressing problems were not of an economic nature, but were related to the regulatory and administrative environment in which these SMEs have to operate.

Problem	Percentage of Firms
Existing tax system	29
Frequently changing legislation	19
Lack of working capital	15
Administrative controls by public agencies	10
Low market demand for company's goods/services	9
Obtaining credit (availability/interest rates)	7
Pressure from corrupted officials and criminal structures	4
Shortages of raw materials/inputs	2
<i>Source: Kharkiv Survey 2001</i>	
NOTE: The table includes all responses that were indicated by more than 1 percent of the surveyed firms. For exact question and response choices, see annex 2; for exact responses, see annex 3.	

Existing tax system

SMEs identified the existing tax system as the single most significant problem facing their companies in 2000. In general, the Ukrainian taxation system leaves much to be desired. In addition to a burdensome level of taxes, the taxation system is complicated and composite. According to official sources, average SMEs should pay up to nine taxes and fees. A new system of taxation gives some advantages to small enterprises and entrepreneurs; however, not even one-third of surveyed SMEs use this integrated tax system. SMEs identified the value added, payroll, and profit taxes as the most damaging. Two-thirds of respondents indicated that the overall tax situation had not improved from 1999 to 2000.

Fishtail legislation

Frequently changing, or fishtail, legislation is the second most significant problem facing SMEs in Kharkiv. SMEs have been expected to adapt to no less than five major legislative shifts (new laws) since June 1999. SMEs do not have large accounting and legal departments on which they can rely for updates to accounting and taxing standards. Moreover, no associations or other institutions provide such information or assistance to SMEs. Frequent changes in the rules and

laws governing taxation create an environment of confusion in which corrupt tax inspectors can thrive.

Lack of working capital

After the legal and regulatory environment, the most significant obstacle for the surveyed firms is lack of working capital. In some ways, this is a function of the broader economic environment that lacks flexibility because people generally lack confidence (e.g., suppliers do not extend credit, clients refuse to pay up front).

Administrative controls by public agencies

Nearly 10 percent of surveyed firms indicated that administrative controls by public agencies were the most important problem they faced in 2000. Another 10 percent indicated it was their second most significant problem. Among all types of administrative control (see Table 11), SMEs identified inspections as the most destructive. On average, surveyed firms were inspected more than nine times in 2000, resulting in fines and other postinspection expenses amounting to approximately 7 percent of annual turnover. Inspections also required an average of 26 person-days of staff time, which cost roughly another 0.5 to 1.0 percent of annual total revenue.

More than half of surveyed firms report that they frequently or sometimes are asked for payments in addition to those legally established for permits, licensing, inspections, and so on. Another 10 percent report that they always are asked for additional payments. On average, these payments amount to 16 percent of each firm's profit.

Type of Control	Percentage of Respondents
Inspections	52
Sanctions	20
Permits	18
Unanswered/blank	7
Registration	4
Licenses	4
Other	2
<i>Source: UI Survey of Kharkiv SME, 2001</i>	

The Tax Administration conducts the most inspections (see Table 12). Tax inspections are closely linked to other obstacles to SME development, considering that the existing tax system and frequently changing legislation (much of it on taxation issues) are the most important problems for SMEs. In addition, SMEs identified the tax authorities as the public agencies with which it is most important to maintain informal relations in a corrupt environment. The Tax Administration and its regulatory cohorts—namely the Tax Militia, the State Control and Revision Service, and the State Treasury—cumulatively account for more than half of all inspections of SMEs (an average of 4.5 inspections per enterprise per year, out of 8.87 total).

After the Tax Administration, the Fire Brigade and the Sanitary and Epidemiological Service are the next most frequent inspectors. These two regulators also issue more permits to SMEs than any

other regulators. There appears to be a simple circuit within the administrative system: Giving more permissions provides a fruitful ground for more inspections.

Nevertheless, approximately 30 percent of surveyed firms reported that the situation with inspections improved from 1999 to 2000. Recent efforts to curtail inspections and other administrative controls are discussed in the conclusion to this chapter and in Chapter VII.

Inspecting Agency	Average Number of Inspections
Tax Administration	3.43
Fire Department	1.35
Sanitary/Epidemic Station	0.84
Police Department	0.67
Tax Militia	0.62
State Control and Revision Service	0.43
Consumer Protection Committee	0.33
Other	0.29
Ministry of Environment	0.24
Committee on Standardization	0.19
Trade Department	0.16
Department for fight against organized criminals	0.12
Department of Architecture	0.06
Security Service	0.04
Customs	0.05
Anti-monopoly Committee	0.02
State Treasury	0.02
<i>Average Inspections per Enterprise per Year</i>	<i>8.87</i>
<i>Source: Kharkiv Survey 2001</i>	

Low market demand for company's goods/services

SMEs in every market experience fluctuations in demand for their goods and services. The best method for responding to changes in demand is to continuously monitor demand using various types of market research. It is clear that there is a lack of information on regional economic activity, at both the sector and firm levels. Customer and citizen surveys are rare.

Obtaining credit

As already mentioned, the lending environment in Kharkiv suffers from high credit costs, lack of collateral and lack of a legislative basis for microcrediting. Although a special regime of investment in priority sectors of the Oblast economy began in January 2000, Kharkiv Oblast favors large investment projects in which SMEs are unlikely to participate (see the **Law on Special Investment Conditions in the Territory of Kharkiv**, No. 1714-III from May 11, 2000).

Pressure from corrupted officials and criminal structures

The survey indicates rampant corruption throughout the current administrative system, which provides plenty of opportunities for extortion, given frequently changing rules, excessive permit requirements, excessive regulatory inspection powers, low government inspector salaries, and so on. More than half of surveyed firms reported that they frequently or sometimes are asked for payments in addition to those legally established for permits, licensing, inspections, and so on. Another 10 percent reported that they always are asked for additional payments. As already discussed, inspections are, by far, the most destructive form of administrative control of SMEs, and the tax authorities were identified as those with whom it is most important to maintain informal relations within a corrupt environment.

Shortages of raw materials/inputs

Large state enterprises have not fully restructured and continue to clog supply chains throughout Ukraine. In many ways, SMEs are subject to the decisions of government and large private firms in areas of raw material supply. The continued development of supply chains of commercially driven enterprises, however, will help to alleviate this dependence.

Land and Property Markets

Although not identified as a major obstacle by any of the relevant surveys, the undeveloped local land and property markets are a very significant, if indirect, impediment to the growth of enterprises of all sizes in Kharkiv Oblast. The local government operates a near monopoly in the land market. It owns the land used by 70 percent of the firms surveyed. It also is the biggest single owner of buildings and premises used by surveyed enterprises—30 percent of SMEs rent space from local governments. This dominating position of local governments in the land and property rental markets results in multiple distortions to development of fair competition in most sectors of the economy. Selling local government land and buildings and premises to private buyers through competitive procedures would result in significant improvements in the quality and rents of commercial space throughout the Oblast.

Also, it should be noted that governmental control over land and real estate creates a fruitful ground for corruption, as demonstrated by the experiences of many countries. When government controls a substantial part of this important resource, corrupt officials harvest a part of market value of property in exchange for granting the right to use this valuable resource or for allocating it below a true market price.

MSI's summary of this situation, with which this assessment wholly agrees, is worth restating here:

Local authorities also have an inherent conflict of interest in that the local authority sets the rules that affect private landlords. If the authority refuses to let private landlords expand or improve their space, then the local authority will receive higher rents for its space, even if the space is substandard. Municipal and rayon authorities may do the better by selling off commercial space, and allowing landlords and tenants [to] compete to determine the quality and quantity of usable space. The local authorities can maintain control over zoning and can increase property taxes since the value of the rental space will be increased. Questions about use of land and buildings for commercial purposes can be dealt with through public hearings that reflect public interest in the use of the space. (Grey and Whinston 1999, 114)

Conclusions about Obstacles to SME Development in Kharkiv

It is clear from the overlapping evidence and multiple indicators that the system of tax administration in Ukraine seriously impedes or prevents the development of SMEs in Kharkiv Oblast. As detailed in previous sections, the tax system is a significant factor in three of the four most significant problems for SMEs in Kharkiv Oblast: the existing tax system, fishtail legislation, and administrative controls. In a recent effort to stimulate foreign investment, the Ukrainian Tax Administration agreed to limit tax inspections to only those international firms suspected of violations. A similarly stimulated increase in domestic investment would not only improve the local economic situation, but also contribute to improved national accounts.

The fiscal and administrative costs of running an SME in Kharkiv Oblast are unnecessarily high. In addition to formal fiscal charges—taxes and fees, which can be high in themselves—the costs may be loaded by two other components that are unpredictable and often have devastating impacts:

- Formal charges, that is, fines (estimated costs are 7–8% of total revenue), that are often left to discretion of inspectors.
- Informal charges imposed by corrupted officials (estimated costs are about 6 percent of profit) and organized crime (estimated costs are about 2% of total revenue).

This assessment's survey and focus group both confirmed that, to a large extent, SMEs connect the existence of the gray sector with an unfavorable business climate. In this climate, businesses fail to report all of their sales and income and must pay illegal tribute to various governmental officials and organized crime racketeers. Given the important role of SMEs in the Oblast economy, the large size of the “gray sector,” and the fact that the very existence of the “gray sector” is caused to large extent by the existing regulatory and administrative climate, this assessment strongly recommends the government concentrate its efforts on facilitating formalization of existing business activities, rather than on the formation of new businesses or the attraction of businesses from regions or countries abroad. These efforts should include a reduction in the regulatory burden faced by SMEs.

Unfortunately, the overall regulatory and administrative climate has not demonstrated overall improvement during 1999 and 2000. Columns 1 and 2 of Table 13 display SME problems as identified by the UI survey in Kharkiv Oblast in early 2001 and by the MSI survey conducted throughout Ukraine in early 1999. The obstacles in these first two columns are ranked according to level of significance to SMEs. Several important conclusions can be drawn from analysis of Table 13. First, despite the fact that two years passed between the MSI and UI surveys, the existing tax system remained the most significant obstacle in the opinion of SMEs. Also, legislative conditions (or, more specifically, fishtail legislation) and administrative controls by governmental agencies also have remained on the list, even increasing in significance from fourth and sixth in 1999 to second and fourth in Kharkiv Oblast in 2001. This supports views by international business monitors, who recently reported that “the traditional list of complaints of foreign investors remains generally unchanged: redundant economic regulation; unclear and unpredictable legislation; macroeconomic uncertainty; widespread corruption; and a heavy tax burden” (EIU 2000, 31).

There is evidence that the situation with some obstacles has improved. For example, the significance of inflation and low market demand for products has decreased. Lack of working capital still is a significant problem, but it also shows some signs of easing.

Table 13 Most Significant Obstacles to SME Development, According to Various Sources

MSI Survey in Ukraine, 1999	UI Survey in Kharkiv Oblast, 2001	Kharkiv Intergral SME Support Program 1999-2000	Kharkiv Regional Small Enterprise Development Program 2001 - 2002	National Program for Supporting Development of Small Enterprises in Ukraine December 2000
Ranked in Order of Significance as Identified by SMEs	Ranked in Order of Significance as Identified by SMEs	Unranked	Unranked	Unranked
1	2	3	4	5
1. Existing tax system	1. Existing tax system	Insufficiency and imperfection of normative legal basis for small enterprise development (e.g., frequent change, considerable number of taxes, complicated accounting, etc.)	Imperfection of legislative basis, its regulatory burden	Absence of accurate, stated public policy in the sphere of small business development through system of elements of law
2. Lack of working capital	2. Frequently changing legislation	Shortage of circulating capital and complexity of access to financial and credit resources	Insufficient attention to and cooperation between regional and local government agencies and entrepreneurs associations in solving problems of small businesses and protecting their interests, including provision of economic and legislative security and removal of administrative obstacles	Increase in administrative barriers (registration, licensing, certification, control systems and permit process, regulation of rent, etc.)
3. Low market demand for company's products	3. Lack of working capital	Insufficient maintenance, including production facilities, equipment, materials, etc.	Low business culture and low professional skills of entrepreneurs	Absence of real and active mechanisms of financial and credit support
4. Legislative conditions	4. Administrative controls by public agencies	Insufficient level of information supply of small enterprise development	Underdevelopment of personnel training infrastructure, an insufficient number of entities providing informational and other help to small businesses (business-centers, business incubators, etc.)	Tax overpressure and burdensome report system
5. Inflation	5. Low market demand for company's goods/services	Lack of proficiency of entrepreneurs	Difficulties in finding financial resources, lack of working capital	Uncertainty regarding the business climate
6. Administrative controls by public agencies	6. Obtaining credit (availability/interest rates)	Insufficient security of entrepreneurs, difficulty with providing them with economic and legal security, administrative barriers, and obstacles	Insufficient attention to small enterprises participation in state and regional orders, creation of mechanism of their access to technical and material resources, including store and industrial rooms, machinery leasing networks, leasing companies	Excessive interference by public authorities in enterprise management
	7. Pressure from corrupted officials and criminal structures	Low cultural level in industrial sector, negative public attitude	Essential insufficiency of the mechanism of organizational and financial support of attractive	

			investment and innovation projects	
	8. Shortages of raw materials/inputs		Underdevelopment of service framework of small business	Substantial lag in business development in many districts of the Oblast that blocks the fundamental agricultural reform
	9. Complexity of bookkeeping and reporting; inadequate equipment; inflation; absence of a premise; lack of demand for goods and services produced; lack of business experience and knowledge		Underutilization of brainpower in experience of enterprise	
			Insufficient consideration and cooperation of regional and local authorities, unions of entrepreneurs, business structures in solving problems of enterprise and social and economic development of the region	

CHAPTER VII* **REVIEW AND ANALYSIS OF EXISTING INITIATIVES AND INTERNATIONAL EXPERIENCE**

Central Government Initiatives

Central government support for SMEs has focused on small enterprises and entrepreneurs, as culminated in the **Law on the National Program in Support of Small Business Development in Ukraine**, No. 2157-III, enacted in December 2000. Section I of the law refers to small enterprises, entrepreneurs, and farms as small business, at which the program of support is directed. This assessment discovered no central government initiatives directed specifically at supporting medium enterprises.

The introductory section of the law associates small business with an efficient market economy and integration of the Ukrainian economy with the rest of Europe. The law recognizes the following obstacles to small business development (see Table 13):

- Lack of clear policy and law on small business development
- Excessive administrative barriers
- Lack of financial and credit support
- Excessive tax and reporting regime
- General instability and uncertainty
- Excessive interference by public officials in enterprise management

In general, these are the obstacles that small business owners identify as most significant, so the views of business and the central government regarding obstacles to small business development appear to be getting closer, at least on the conceptual level. The new national program recognizes the negative impact of administrative controls such as inspections and excessive taxes on small business development. More important, the law outlines specific measures to reduce the most significant problems that small businesses currently face. The law calls for improvement of the legal and normative base to regulate the activities of public agencies and their officials in the small business sphere (Article III-1-4) and states that introduction of a "purposeful, consistent and predictable common public regulatory policy in the sphere of entrepreneurship is one of the main tasks of the program" (Article III-2-1).

The law's plan for implementation of a new public regulator policy includes the following:

- public participation and interagency coordination in planning and preparing improvements in regulatory activity;
- evaluation of the effects and social results of regulatory activities;
- legislative improvements to decrease excessive state interference in entrepreneurship;
- coverage of regulatory problems in mass media and participation of the Entrepreneurs Union and citizens in discussing and solving the problems;
- analysis and publication of the results of these efforts; and
- simplification of permit and registration processes.

This is the first time an issue such as limiting regulatory control of small business has been included in a law of Ukraine. Successful implementation of these measures could greatly enhance

* NOTE: The Urban Institute is entirely responsible for Chapter VII: *Review and Analysis of Existing Initiatives* and related parts of the Executive Summary and policy suggestions. Ukrainian researchers did not participate in the review of local programs.

the environment for small business development, although it is too early to evaluate the practical results of the national program.

While the new law indicates major improvement in the central government's view of small business, it also indicates that the central government still has not recognized the extent of the significance of small business. For example, the **Law on the National Program to Support Small Business Development** begins by declaring that small business is responsible for 9 percent of total national employment, but in 1999, the internationally funded MSI survey that involved foreign and national experts estimated that SMEs together employed more than 50 percent of the workforce of Ukraine. The MSI survey estimated that firms with 50 or fewer employees, at which the national program is directed, employ 34 percent of the workforce, a great deal more than the 9 percent assumed by the national program

Kharkiv Government Initiatives

Kharkiv Oblast efforts in the area of SME support also have focused on small enterprises, entrepreneurs, and farms. The two most recent efforts are the *Regional Integrated Program in Assistance of Small Enterprise Development in Kharkiv Oblast for the Years of 1999-2000* and *Regional Program of Small Entrepreneurship Development in Kharkiv Oblast for the Years of 2001-2002*. The development of both programs was led by governmental and semigovernmental agencies. In implementing these programs, the government plays a key role, although the implementation and especially finance plans demonstrate increasing reliance on participating enterprises and external (non-governmental) coordinators, executors, and founders. In particular, this is typical for the new components, introduced from 2001. The limited role of government funding and coordination in these components is a positive trend that should be continued where appropriate with all new components.

The planned budget of these programs grew almost 20 times—from approximately 1 million UAH annually for the 1999-2000 program to close to 20 million UAH annually for the 2001-2002 program (see Table 14). The new program fortunately includes plans for quarterly management reports on the progress of implementation. The program document indicates that these reports are for the Ministry of Economy, but it is hoped they also will be used to explain changes in subprogram funding and operational arrangements.

Three major sources of financing are planned for the current program: (1) Regional Enterprise Support Fund, funded from the regional budget; (2) voluntary contributions of enterprises; and (3) other sources that combine various nongovernmental funds (foundations, international donors, etc.) with specialized funds of the central government (for example, from the Social Protection Fund). As Table 14 indicates, the regional program for 2001-2002 expects to obtain only 10 percent of its budget from the regional government. It should be noticed also that the budget included in the formally approved programs and shown below is, to a very large extent, a “potential” budget without certain commitments from intended sponsors. For example, at least 85 percent of funds included in “Other Sources” for 2001 still are at the stage of discussions with potential sponsors.

Year	Regional Enterprise Support Fund	Entrepreneurs' Funds	Other Sources	Total
1999	491	418	125	1,034
2000	381	375	177	934
2001	2,022	3,935	13,982	19,979
2002	1,990	4,735	14,851	21,577
<i>Source: KRESF 1999 and 2000</i>				

Annex 1 presents a summary of the regional programs and also includes some recommendations about specific subprograms. These programs generate several conceptual and functional concerns. First, there is a remarkable mismatch between the obstacles identified by SMEs and those identified by the regional program. Columns 3 and 4 of Table 13 list obstacles to small business development, as identified by the Kharkiv regional programs. For example, the existing tax system, which has been steadily ranked by SMEs throughout Ukraine as their most significant problem, has been only partly mentioned among other issues in the first program and is not mentioned in the second program at all. On the other hand, the programs promote many activities whose demand by small business is not documented and in which governmental efficiency in delivering sound results is questionable, at least based on the experience of other countries. Some examples are discussed in the next section.

This mismatch is especially troubling when the programs offer to governmental agencies the role of direct “providers” of various services and goods (such as brokerage services for obtaining production space or equipment, provision of loans, information, or market studies), while the worldwide evolution of governance over the past 20 years was in the opposite direction: withdrawal from this role and taking instead the role of an “enabler.” This new role of an enabler implies that the government focuses on creation of the favorable regulatory climate and institutional infrastructure for the private sector. This enables multiple private economic actors to function and compete for clients. As a result, services needed by various clients, including small business, are delivered by private for-profit and nonprofit providers faster, better, and cheaper. Some specific issues related to this delineation of functions between the government and the private sector within the programs in question are discussed later in this chapter.

The next concern about the potential effectiveness of the regional programs is related to an unclear level of control that the local governments (oblast, city, rayon) have regarding the regulatory and administrative environment in their territories. In other words, if the regional government (or other local government in Kharkiv Oblast) would have a political will to improve the business climate for small business, would they have enough legal and administrative power? In short, it is not clear what output regarding improvements to the business climate in Kharkiv Oblast can be expected from the regional programs: real changes made at the regional (or lower) level or just recommendations to the central government.

The design of these programs deserves some attention. First, various parties are included among the executors of each subprogram, but the document does not indicate that all of these parties have been consulted and have participated in planning the program. Second, evaluating

achievements to date, the current program credits the previous program for an increase in small enterprises, but presents neither evidence nor indicators to support the accreditation.

Finally, the programs make reference to the formal estimates of the number of small businesses (see Table 15) without any acknowledgment that these data are low estimates. Similar to the new national program, the regional programs do not even mention the need to reduce the informal economic activity.

Table 15 Performance Indicators Used in Kharkiv Regional Small Enterprise Support Programs, 1998 and 2000		
Indicator	as of 01/01/98	as of 01/01/00
Number of small enterprises	10,139	13,328
Number of individual entrepreneurs	45,800	58,400
Small enterprises per 1,000 people	3.7	4.5
Percentage of total employment	9.9	14.7
Percentage of public budget funded by small enterprises	5.4	13.0
<i>Source: Authors' compilation from Oblast program descriptions</i>		

Lessons from Relevant International Experience

Area of Information and Research

The progress in this area needs some initiatives from inside all sectors involved: the government, the private sector, and professional and trade organizations. Also, more clear delineation of areas of information activities among participants is required.

The government may and should make public and easily available all statistics based on information that it gets in its domain because of its unique governmental functions. This includes, first of all, improving governmental statistics related to SMEs. For example, as we demonstrated in Chapter IV, in 1998–1999, the Statistics Department had its own definition of small enterprises, in discord with law, and did not separately report on medium enterprises. Clearly, such glimpses are misleading for all parties involved. Thus, improving the quality and availability of state data associated with SMEs should be a priority for public agencies. Economic analysis, for which governmental agencies are well positioned, usually is related to macroeconomics or demographics, but not to a detailed market analysis for specific industries or products.

It would be an illusion to hope that governmental agencies should and can lead efforts to provide market information, which might be needed for SMEs to operate. First of all, it is proven that enterprises, including SMEs, tend to consider most information related to their operations confidential and do not necessarily disclose true information in response to a government request. Burdening them with such requests, beyond what is required by law, would increase the costs of running businesses but would not produce reliable results. In countries in transition, one of the most common examples of failed attempts of governments to provide market information is related to real estate—when the government or semigovernment agencies try to collect data on market prices. This information is available only at private companies or—when the market reaches a certain maturity—at professional associations.

World experience shows that local and regional market information and market studies on these geographic scales are usually produced either by the private companies (for themselves, as it is typical for big corporations, or for sale to other companies) or by associations and other organizations sponsored by their members.

For the Kharkiv region, the implications of this experience are that initiatives for producing information and market studies would be fruitful when the private sector and associated nongovernmental organizations (NGOs)—such as a trade association—would take the lead to decide what they need and how they are ready to sponsor these initiatives. Governmental—taxpayers-based—support to these initiatives should be limited and in any event may be provided only after the demand is well formulated and expressed by the private sector and its organizations.

Given the transitional nature of the current situation and the highly dynamic and fluid character of SMEs, it might be useful to have some NGOs involved in systematic gathering of information, monitoring and analyzing sector trends, and supplying this information to both governmental agencies and the private sector. One specific experience from St. Petersburg, Russia, might be transferable to Kharkiv: Specialized journalists have played an outstanding role in developing the quality standards for market studies and educating the local government on how to recognize the private sector as an equal partner and be accountable for decisions made.

Box 1. Regional and Local Market Information: Examples of Products, Providers, and Sponsors

Quarterly Report “Major Real Estate Markets in Virginia”; conducted and published by Virginia Real Estate Research Center (at part of Virginia Commonwealth University, USA); sponsored by Virginia Realtors Foundation (an educational and research arm of a professional association of real estate brokers and agent of the State of Virginia)

Market studies regarding specific agriculture products from California; conducted by specialized consultants for California Associations of various specialized agricultural producers (Association of Pear Producers, Association of Dairies, etc.); the studies help producers to position their type of product within regional and bigger markets.

Annual Kosmont Cost of Doing Business Survey; provides information about how much it costs to run businesses in various localities, in terms of property tax, other local taxes and fees (including costs of such utilities as telephone, cellular telephone, electricity, water, and gas), fees associated with land development, and economic incentives provided by local governments to businesses operating in their jurisdictions; covers 250 cities in California and other Western parts of the USA; produced by Kosmont company as a commercial and marketing product.

Periodic reviews and analysis of specific subsectors of the real estate market in St. Petersburg, Russia; (for example, new housing, hotels, industrial/storage, etc.); conducted by specialized journalists and published in weekly "Real Estate and Construction in St. Petersburg"; the weekly newspaper is financed by publishing advertising and direct sales.

Area of Lending to SMEs

Currently, lending to SMEs is in an embryonic stage in Kharkiv Oblast and there is no available data about this sector. There is indirect evidence that bank loans are mostly not available or not affordable to small enterprises.

The current regional program allocates about 2.2 million UAH for direct loans and subsidies to small business, with administration of the whole process (including underwriting and servicing loans) by the Kharkiv Regional Entrepreneurship Support Fund (KRESF), while allocating only 73,000 UAH for developing institutional infrastructure and instruments that would support lending to small enterprises from nongovernmental funds.

International experience in various countries, both developed and transitional, has demonstrated that governments and governmental agencies are usually less efficient lenders than specialized institutions are. Therefore, it would be useful for Kharkiv Oblast to consider direct loans and subsidies issued from public budgets and administrated by a nonspecialized agency as a short-term solution only, and reallocate efforts and more financing on developing more efficient and less costly instruments and programs based on public-private cooperation. The program executors might focus efforts on two main directions. First, it could focus on capacity building at the financial sector, which may include the production of a handbook and training for local banks and credit unions on all components of lending to SMEs (assessing the creditworthiness, underwriting, servicing). Second, it might focus on proactive development and testing of specific lending instruments and mechanisms that would combine the private- and public-sector financial resources and assist existing credit associations and other financial institutions to increase the volume of lending to SMEs.

Area of Real Estate and Related Services

The current program makes the impression that various governmental departments and public agencies intend to get actively involved in improving availability of publicly owned and underused real estate to small business, improving leasing procedures, and otherwise serving as participants or facilitators of the real estate market. The experience of practically all countries in transition over the past 10 years, however, has provided much evidence that local governments and governmental agencies are not efficient property owners and managers. In particular, on the one hand, it has been documented quite well in many countries that municipal lease agreements are always worse than ones used by the private sector in the same country/city, municipal rental prices always deviate from market prices, publicly financed construction projects are always more expensive and less sensitive to location demands of end-users of real estate, and so on. On the other hand, it is known that the private sector can be very efficient in providing infrastructure, including business incubators, to SMEs if and when basic inputs, such as land plots, are available.

Strategic lessons that the Kharkiv Program can take from this experience, and that are directly related to the real estate needs of SMEs, include immediate and long-term corrective action. For the most immediate improvements, such as leasing procedures, provision of underused space to SMEs, and others, there are three main directions:

1. Rely on cooperation with the private real estate industry in Kharkiv, namely, real estate brokers and appraisers, and use their experience and creativity for solving problems associated with inefficiency of use of real estate owned or controlled by government and other public-sector actors.
2. Ease existing regulations that prohibit holders of excessive real estate from immediate release of this space for sale or rent. This liberalization should cover

all holders of excess property regardless of ownership, in particular, state enterprises and such public institutions as educational and research institutions, hospitals, and so on.

3. Simplify and minimize procedures for changing property use, such as conversion of apartments into nonresidential premises.

In the longer term, aggressive privatization of municipal nonresidential property, land privatization, and simplification of land and real estate development procedures is one way to solve the problem of space availability for SMEs. Again, the experience of St. Petersburg in Russia may provide useful insights for Kharkiv.

Business ethics and relations with clients

International experience—again, in both developed and transitional countries—shows that business ethics cannot be planted from outside and should develop from inside the industry. Codes of ethics, along with standards of practice, are common tools of self-regulation within many specialized professional societies throughout the world. They are efficient, however, only when some “critical mass” of economic actors in a particular professional area voluntarily accepts these rules and then maintains and disseminates them through professional organizations. “Growing up” to the stage of acceptance of these tools in emerging markets takes some time; however, *competition* among businesses for gaining confidence of clients proved to be a very powerful and fast-teaching factor that pushed businesses to organize themselves and think about good reputation and credentials. Any attempt to make these tools mandatory for businessmen, in particularly through governmental channels, would have a negative impact on the business climate.

The role of the program in this area can be only educational, and in no case should making a Code of Ethics or any other similar instrument be mandatory by law.

Governmental Contradictions

While several laws and decrees include supportive and encouraging words for businesses and their development, other government actions directly impede them. For example, at approximately the same time the central government prepared the National Program of State Support for Small Business, the cabinet adopted resolution no. 1755 of November 29, 2000, which established a uniform license fee of UAH 5,100 for wholesale and retail trade in liquor, regardless of the quantity sold. Licenses for wholesale and retail trade in tobacco cost UAH 5,100 and UAH 2,550, respectively, again regardless of quantity sold. Enterprises that pay for the initial license pay only UAH 17 for additional retail outlets, a huge benefit for large operations. Similarly, the **Law on Making Amendments to the Law on Using Electronic Cash Registers and Accounting Books in the Spheres of Trade, Public Catering and Services** requires businesses, regardless of size, to acquire cash registers and other expensive symbols of financial responsibility. As final examples, the new **Law on National Program in Support of Small Business Development** prioritizes reducing the regulatory burden on SMEs, and the **Law on the State Budget** proposes funding for the Tax Administration based on the amount of taxes and duties it collects (encouraging rampant inspections and fines).

Recent government initiatives are encouraging, but they need to be holistically supported by the government through tax and budget policies, instead of fading into rhetorical insignificance.

CHAPTER VIII

SUGGESTED DIRECTIONS OF EFFORTS TO SUPPORT SMALL ENTERPRISE DEVELOPMENT

Recent legal provisions at the national level improved a general background for small enterprise development and, in particular, named all major problems that SMEs face. The regional programs also contain many useful initiatives. It appears that further progress of SME development in Kharkiv Oblast will substantially depend on how relevant the regional efforts will be to the needs of the SME sector. Based on the results of this assessment and on international experience, it seems that regional efforts would benefit from three conceptual adjustments, followed by respective adjustments of policies and actions:

1. Regional programs should be further adjusted to respond more directly to needs of SMEs as these needs are viewed from inside the SME sector. In other words, the current mismatch between what the private sector identifies as problems and what the regional programs offer as solutions should be systematically reduced.
2. All levels of government (national, oblast, city, rayon) should transform their roles from “providers” to “enablers.” This would imply focusing efforts, first and foremost, on improving the regulatory and administrative environment for small enterprise operations and removing administrative barriers. Second, local governments may facilitate development of business infrastructure for SME operations, but they should distance themselves from the role of providing this infrastructure to SMEs.
3. The reform agenda should include, and give a high priority to, the idea that legalization and formalization of jobs and activities that already do exist in the “gray sector” is at least not less important than creation of new jobs.

This conceptual refocusing of governmental vision, if accepted, will take time to materialize in specific changes of approaches and programs, so many current activities suggested in the regional program may be useful to continue as transitional ones. It is also important to note that some steps that should be taken for implementing the suggested conceptual shifts cannot be accomplished without additional legislative decisions on the national level and further delineation of the roles between the central and local government, which is discussed below.

The rest of this chapter suggests and discusses some specific issues or aspects that appear important for implementing the suggested readjustment of existing initiatives and that *have not been sufficiently addressed in existing initiatives*. Most suggested policies, programs, and actions that are needed to implement these conceptual shifts are interrelated with one another and, when and if enacted, would produce multiple benefits. Each recommendation presents opportunities for contributions by USAID and international organizations. Recommendations are first discussed and then summarized in a policy matrix.

1. Reduce fiscal burden on SMEs

Taxes routinely are identified as obstacles to SME development in Ukraine. Considering the extent to which SMEs informally operate, a reduction in taxes on SMEs is likely to increase SME investment, a formal part of SME activity (including registration of new SMEs), tax revenues, and economic growth and opportunity in general.

This instrument—tax reduction—should be available to local (at least oblast) governments. Currently, however, the system of taxation is still highly centralized in Ukraine, and local governments may set up rates only for a single tax paid by individual entrepreneurs but not by legal entities. The following are recommended to address this issue:

- ***Introduce elements of fiscal decentralization that would allow local governments effectively to reduce tax burden for small enterprises in their jurisdictions.*** For example, the oblast level might be granted the right to reduce rates below 6 and 10 percent, which are set up by the central government for SMEs' legal entities participating in simplified taxation.
- ***Use already available fiscal latitude at local governments to reduce the fiscal pressure on SMEs.*** For example, local governments may reduce a single tax on individual entrepreneurs or reduce the costs of registration and permits.
- ***Reduce administrative charges imposed on SMEs.*** The national and local government should reconsider the extensive regime of registration, licensing, and permitting and streamline its operations and reduce costs to SMEs where feasible and practical. Specific first measures may include (1) revision of permit requirements at fire and sanitary departments, and (2) making the fees for licenses to provide certain goods and services dependant on the volume of goods and services to be provided. This is not the current situation for licenses to sell alcohol and tobacco, for example.

2. Restructure governmental regulation

While both current programs of SME support—national and regional—acknowledge the problem of overcontrolling SMEs and suggest some activities for improving the situation along this line, a more integrated approach should include several directions:

- ***Limit in number and scope governmental inspections of businesses throughout Ukraine.*** Inspections are particularly burdensome for SMEs because they suffer higher per capita costs (financial and otherwise) than large enterprises. The national and local governments should limit inspecting agencies to inspections related to their respective bailiwicks. For example, the tax police now are authorized to ensure that products have not passed their shelf lives. This role clearly is more appropriate for a food and drug agency, but even more appropriate for NGOs and industry itself.
- ***Codify the permit process.*** Currently, local practice establishes permit requirements, forcing SMEs to check with a number of local authorities before beginning operations. Because the requirements are not spelled out in a widely applicable, formal manner, they provide government officials with leverage to extort funds and favors from SMEs. Central and local governments should reform the system of permits in a manner similar to that of the reform of licensing and with measures to swiftly implement reforms at the local level.
- ***Reduce government employment.*** It is clear that the government employs too many regulators and inspectors, resulting in overregulation of SMEs and providing leverage for extortion. The high level of employment also limits the resources available to pay government employees, further facilitating (even encouraging) corruption.

- ***Make intolerance to corruption an explicit part of governmental support of SME development.*** As the UI survey revealed, much of SME-related corruption in Kharkiv Oblast is related to local governments (oblast, city, rayon). At the same time, this assessment did not clarify to which level of government report all inspecting agencies identified by respondents of the survey—Tax Administration, Fire Department, Sanitary/Epidemic Station, Police Department, and so on—whose permitting, licensing, and inspecting activities also contribute into existence of corruption.⁶ Anticorruption activity would be a big challenge because, as international experience has demonstrated, cleaning government from the inside is always difficult.
- ***Reconcile law and regulation.*** The central and local governments should carefully review their tax laws and procedures and annual budgets to ensure they complement special programs and initiatives such as the National Program of State Support for Small Business. The preparation of such a program is a complete waste of resources if its implementation is to be prevented by the national budget and tax system.

3. Integrate informal SME activities in the formal sector

Implementing this strategy would require a whole set of well-targeted policies and actions that should be specially designed, a project that goes far beyond the scope of this assessment. Here, we outline only some directions. Thus, the survey results indicate that overall improvement and stabilization of the fiscal and administrative environment in which SMEs operate (and, in particular, reduction of a fiscal burden) will motivate some entrepreneurs and businesses to legalize their activity or reduce the informal part of operations. This alone, however, may be not sufficient and should be reinforced by other actions:

- ***Provide incentives (and market existing incentives) for legalization to “gray economy” participants.*** This area should be further elaborated. Clearly, one of several possible lines of incentives should be related to social benefits, which formally working people obtain (such as length-of-service records for pensions).
- ***Study and use international experience of successful reduction of the informal sector in transitional or other industrialized countries.*** There are success stories around the world, but the ones most well documented are associated with fast-growing areas in developing countries, for example, Toledo, Brazil; Inner Kingston, Jamaica; and East Delhi, India.⁷ Therefore, these experiences may be not completely relevant to the situation in Kharkiv Oblast with its high industrialization and urbanization. It would be very useful if USAID or other international donors could sponsor a study of how the issues of the informal sector have been addressed in industrialized and urbanized countries, in particular, in other countries in transition. Meanwhile, there are some policy and regulatory lessons learned in developing countries that appear applicable to the Kharkiv situation (see Box 2).
- ***Use potential political benefits from addressing the issues of the informal sector.*** Adopting a strategy shift toward dealing with legalization of already existing informal

⁶ This reporting hierarchy should be clearly identified and taken into consideration when anticorruption actions are designed.

⁷ G. Peterson, T. Kingsley, and J. Telgarsky, “Urban Economics and National Development,” Office of Housing and Urban Programs, USAID, Washington, D.C., 1991.

jobs, instead of focusing only on creation of new ones, may have an important policy implication. Specifically, this strategy would be new for Ukraine, and political leadership of Kharkiv Oblast may get some credit for pioneering in this important area if implementation of this strategy would be accompanied by a proper public relations campaign.

4. Restructure government services from provider to enabler

As explained in Chapter VII and annex I, the central and local governments are direct providers of many services for which they would better serve as enablers or facilitators. This issue is especially significant for SMEs because the sectors in which government is active are some of the sectors in which SMEs have a high potential to succeed based on international experience. This change of the governmental role calls Kharkiv Oblast to join the worldwide evolution of governance and implies some substantial revision of approaches to solving existing problems. Within the area of supporting SME development, first steps may be based on a “pilot project” approach. Implementation of this approach may begin along two lines—topical and geographical:

- **Identify specific tasks already included in the current regional program, in which switching to the role of “enabler” can be practically done, and conduct pilot projects.** Issues associated with availability of real estate to small enterprises may be one of such pilot tasks.
- **See whether some geographic jurisdiction within Kharkiv Oblast would like to volunteer for the pilot project of an “SME-friendly Area.”**

Box 2: Involving the Informal Sector in Local Economic Development: Lessons From Success Stories*

3. In all successful cases, local governments tolerated and even supported the informal sector instead of punishing or prosecuting it. They also created the climate for its legalization.
4. Specific measures included:
 - Liberalization of the whole range of land and property use regulations. In the Kharkiv context this would imply: allow small production and commercial activity in former residential areas, buildings, and units; for example, allow office and service use in former apartments. Allow street retail kiosks at any location where there is a demand from street retailers to install their kiosks. Allow multiple land use for most vacant land sites, including residential, commercial, and some production use (instead of prescribing a specific land use according to a general plan).
 - Decentralization and democratization of land use policy and infrastructure decisions. In particular, decisions about investment, especially in physical and business infrastructure, should practically depend on priorities expressed by small businesses and entrepreneurs.
 - Simplification of the entire registration/ permission process.

Adapted from G. Peterson, T. Kingsley, and J. Telgarsky “Urban Economics and National Development” – Office of Housing and Urban Programs, USAID, Washington, D.C., 1991

Policy Matrix: Issues of SME Development Support That Are Not Sufficiently Addressed in Existing Governmental Initiatives				
Reform Issue	Priority*	Level of Government	Likelihood of Success	Implications for USAID
Objective 1: Reduce fiscal burden on SME				
1.1 Introduce elements of fiscal decentralization that would allow local governments effectively to reduce tax burden for SMEs in their jurisdictions	B	Central	May succeed faster if it is considered as “experimental” decentralization at Kharkiv Oblast	Support through cooperation with the central government, especially if this reform issue fits in with wider reform agendas supported by international donors (for example, technical assistance (TA) on government decentralization)
1.2 Use already available fiscal latitude at local governments to reduce the fiscal pressure on SMEs	A	Local governments of various levels	May succeed in some localities	Support through the ongoing Kharkiv Oblast project and other projects by incentives, TA, and public relations (PR) assistance to participating local governments
1.3 Reduce administrative charges imposed on SME	B	Local governments of various levels	May succeed in some localities	No specific
Objective 2: Restructure government regulation				
2.1 Limit governmental inspections of businesses throughout Ukraine in number and scope	A	All levels	May succeed in some localities	Support through the ongoing Kharkiv Oblast project and other projects by incentives, TA, and PR assistance to participating local governments
2.2 Codify the permit process.	B	All levels	May succeed in some localities	No specific
2.3 Reduce government employment	B	All levels	May succeed in some localities	Support on the political level Provide assistance on retraining governmental employees within a program of governmental downsizing, if requested
2.4 Make intolerance to corruption an explicit part of governmental support of SME development	B	Local governments of various levels	Not high, in short term	Support on the political level and by providing TA, if requested
Objective 3: Integrate informal SME activities in the formal sector				
3.1 Provide incentives (and market existing incentives) for legalization to “gray	A	Local governments of various	May succeed	Provide strong support through TA for designing various incentives for legalization of informal SMEs

Policy Matrix: Issues of SME Development Support That Are Not Sufficiently Addressed in Existing Governmental Initiatives				
Reform Issue	Priority*	Level of Government	Likelihood of Success	Implications for USAID
economy” participants		levels		
3.2 Study and use international experience of successful reduction of the informal sector in transitional or other industrialized countries	B	N/A	N/A	Conducting a study of experience in other transitional countries and making it available to Kharkiv and other regions
Objective 4: Restructure Government service from provider to enabler				
4.1 Identify specific tasks already included in the current regional program, where switching to the role of “enabler” can be practically done, and conduct pilot projects	B	Local governments of various levels		Provide TA within the ongoing Kharkiv Oblast project, if requested
4.2 Conduct a pilot project of creating “SME-Friendly Area” at some geographic jurisdiction within Kharkiv Oblast	C	City or rayon government	May succeed if properly marketed to local governments	Provide TA to conduct a local pilot project, if requested
*Note: Each proposed action item has been rated by overall importance/priority: A–Critically Important (i.e., an essential next step without which some other important measures will fail); B–Strategically Important (i.e., important for creating long-term progress in SME development); C–Useful as a Component.				

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СТАТИСТИЧНИЙ БЮЛЕТЕНЬ. МАЛЕ ПІДПРИЄМНИЦТВО В ХАРКІВСЬКІЙ ОБЛАСТІ
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ANNEXES

- 1 Review of Kharkiv Oblast Small Enterprise Support Programs
- 2 Kharkiv Survey Questionnaire
- 3 Statistical Presentation of Kharkiv Survey Results

ANNEX 1
REVIEW OF KHARKIV OBLAST SMALL ENTERPRISE SUPPORT PROGRAMS

No. Component	Total Funding (in thousands of UAH)			
	1999	2000	2001	2002
<p>2.1 Normative and Legislative Support</p> <p>The activities of the subprogram have remained constant during the four programmed years. The subprogram's funding has increased considerably.</p>	50	45	115	115
<p>2.2 Regulatory Policy Execution</p> <p>This subprogram is new to the 2001-2002 program. This is the first time this component was included in the regional, or any, business support programs. The goal of the subprogram is "liquidation of legislative, economic and administrative difficulties in the way of entrepreneurial activity development." The head of the Kharkiv branch of the State Committee on Regulatory Policy and Business is the subprogram's coordinator.</p>	NA	NA	40	40
<p>3.1 Financial, Credit, Material, Technical, and Investment Support</p> <p>In the 1999-2000 program, this subprogram was divided in two subprograms: Financial and Credit Support received UAH 75,000 and UAH 30,000; and Material and Technical Support received UAH 50,000 and UAH 40,000 for the respective years.</p> <p>The coordination of this subprogram was transferred from the External Economic Relations Department to KRESF with a complete switch in group members.</p> <p>The regional enterprise support fund, whose formation was a goal of the 1999-2000 program, now is established as the Kharkiv Regional Enterprise Support Fund and has overtaken coordination responsibility for the subprogram, which now includes not only Financial and Credit Support, but also Material, Technical, and Investment Support.</p> <p>This is one of the two most important subprograms in the regional program (the other being Regulatory Policy). Its goals, especially in the area of facilitating leasing of state and private property, which frees unused capacity from large enterprises, have major implications for the regional economy. Especially because the subprogram has grown so quickly, it is very important to ensure that funds in this area are expended most efficiently. The subprogram intends to develop innovative financing and leasing arrangements. The executors should make every effort to involve local banks and credit unions in not only servicing loans to small businesses, but also in making decisions on creditworthiness. For this, the subprogram should include production of a handbook on assessing the creditworthiness of small businesses and entrepreneurs and related training. The recipients of the training should be the bank and credit union loan officers who will evaluate and decide on loan applications. This would instill capacity where it is most needed, in the financial sector, instead of within the government's program.</p>	125	70	1,123	1,263
<p>4.1 Social Partnership Development</p> <p>This subprogram is new to the 2001-2002 program. The subprogram's goal is quite commendable: "... gradual transition from state regulation of business activity to its regulation on the basis of social partnership." The subprogram seeks to increase entrepreneurs' motivation to join associations and to stimulate existing and new institutes of business. The use of business associations in program execution is wise.</p>	NA	NA	40	40
<p>4.2 Enterprise Development Infrastructure</p>	110	110	150	200

No. Component	Total Funding (in thousands of UAH)			
	1999	2000	2001	2002
<p>Again, the subprogram description in the 2000-2001 version does not reference the accomplishments of the previous program. Because the current program includes creation of district centers, a network of business incubators, and business exhibition centers, it would seem that the previous program did not establish these facilities, although their establishment was listed among its activities.</p> <p>In a related matter, the previous program's activities include creation of a regional enterprise reconstruction and development agency and a public chamber for support of small and medium enterprise development, but the current program does not indicate whether these activities were completed or whether these new facilities are functioning.</p>				
4.3 Information Provision	44	37	136	114
<p>Increasing the supply of information certainly is a worthy cause. The role of various government agencies in this subprogram seems too great. In this area, the government would serve best by improving and expanding its existing data collection and dissemination program through the Oblast Department of Statistics.</p> <p>It is encouraging that the mass media is listed among the subprogram executors.</p>				
4.4 Entrepreneur Rights Protection	40	40	70	70
<p>The 1999-2000 subprogram was called Economic Safety and Entrepreneurs' Safety. Subprogram activity 3, "Introduction of mechanism of control bodies coordination concerning inspections of business activity subjects" is notable. It is encouraging that the district and city executive committees are listed among executors. Subprogram results from the previous two years is not included, so the results of the roundtable meetings are not known, including state law enforcement authorities, tax administrators, and entrepreneur unions, or whether these meetings even occurred.</p>				
4.5 Personnel Training	150	165	7,610	9,180
<p>This is a complete change in subprogram coordination and group members.</p> <p>The current subprogram appears more focused and specific than its predecessor. This is undoubtedly related to the issuance of the Cabinet of Ministers Decree on Realization of the President's Decree on Assistance in Personnel Training for the Sphere of Business (No. 849, July 3, 2000) (No. 1358, September 30, 2000). The subprogram now includes plans for the establishment of an Academy of Enterprise, the creation of retraining programs for the unemployed, the development of continuing education programs to enable entrepreneurs to continue working while learning and to exchange seminars for trainers and the establishment of a curriculum for a new course, "Fundamentals of Business," to be introduced to institutes of vocational, technical, and higher education.</p>				
4.6 Creation of Social and Cultural Environment	145	40	190	130
<p>Most of the activities planned for this subprogram would be most effectively managed by an association of small businesses that is accountable to its members. The entrepreneur association is listed among the executors of only one activity, and the Chamber of Commerce is not involved at all. Their roles should be expanded wherever possible. If there are obstacles to involving business associations in program implementation, these should be investigated and solved. The subprogram might seek incentives for small businesses to join representative associations. The same associations would serve as resources to their members, providing training opportunities and representation on policy matters to the regional and national governments.</p>				

No. Component	Total Funding (in thousands of UAH)			
	1999	2000	2001	2002
<p>4.7 Scientific and Theoretic Provision of Small Business Development</p> <p>The collection and analysis of information on SMEs and their role in the economy definitely should be increased and improved, and the results of the Regional Program should be monitored and evaluated. To increase the likelihood of sustainability, the subprogram might support the building of capacity in collection and analysis of SMEs within the Oblast Department of Statistics.</p>	40	60	45	65
<p>5.1 Innovation Development</p> <p>See comments under subprogram 5.11.</p>	48	70	132	94
<p>5.2 Ecological Entrepreneurship Development</p> <p>This subprogram is new to the 2001-2002 program. This subprogram is unique in its stress on NGOs, both as recipients of support and as executors.</p>	NA	NA	58	58
<p>5.3 Insurance Market Development</p> <p>This subprogram seems misplaced. It is not concerned with SMEs or entrepreneurs in any way. The subprogram addresses major economic issues, such as the regional medical insurance system and use of insurance reserves for regional investment projects.</p> <p>The subprogram in insurance should seek to provide assistance that small and medium enterprises uniquely require. This might include a special program that enabled small businesses to purchase various benefits, including health insurance, through an association of small businesses.</p>	35	60	78	29
<p>5.4 Youth Entrepreneurship Development</p> <p>In the previous Regional Program, this component was coordinated by the Deputy Chief of Family and Youth Matters for the Oblast State Administration. Now, the director of the Ukrainian-American Business Center coordinates. The subprogram is completely funded from other sources, which obviously is a positive characteristic.</p> <p>The formation of a curriculum and establishment of a class on entrepreneurship and small business management within the regional high school system would be an appropriate goal for an expanded subprogram in this area. The curriculum might be developed in conjunction with that of the "Fundamentals of Business" course to be created under the personnel training subprogram.</p>	70	80	123	171
<p>5.5 Gender Entrepreneurship Development</p> <p>This subprogram is new to the 2001-2002 program. Again, it is good that the funds all are from other sources and NGOs are involved (mostly Diya Action organization). The subprogram should seek to establish, or spin-off, from the current government structures an association of women entrepreneurs and small business owners who would be most familiar with the difficulties they face and resources they require to overcome them.</p>	NA	NA	101	101
<p>5.6 Invalids' Entrepreneurship development</p> <p>This subprogram is new to the 2001-2002 program. Again, this new component heavily relies on outside resources. The Kharkiv Civic Invalids' Entrepreneurs Organization coordinates the subprogram and is an executor of every activity. The subprogram is completely funded by outside sources. The number of invalid entrepreneurs in Kharkiv Oblast is not indicated by the program.</p>	NA	NA	159	158

No. Component	Total Funding (in thousands of UAH)			
	1999	2000	2001	2002
<p>5.7 Agricultural Complex Entrepreneurship Development</p> <p>The 1999-2000 subprogram was called Farm Support. This is the only subprogram whose funding decreased from the previous to the current Regional Program. The planned production of a separate program for Small Business Development in Rural Areas probably is an improvement in the approach. The formation of rayon farmers associations is an activity of both the previous and current agricultural/farm support subprogram, but there is no indication of the progress in developing these associations.</p>	67	46	22	24
<p>5.8 Employment Programs Support</p> <p>The subprogram is positive in its goals and external funding, but some of its activities provide opportunities for more market-oriented approaches. For example, the first activity described will provide funds to businesses that take on unemployed workers. Instead, the Oblast government could obtain information about the skills that small enterprises in Kharkiv require, then assess the skills of the unemployed population and provide training to eliminate any gaps in the skill requirements of the enterprises and the skills of the unemployed individuals.</p> <p>Many individuals who are officially registered as unemployed actually work for unregistered enterprises or are unofficially employed by registered enterprises. Research has indicated that SMEs comprise a significant portion of unregistered economic employment. A subprogram whose aim is to increase small enterprise employment and decrease unemployment also should encourage the formalization of illegal employment through incentives.</p> <p>In approaching the issue of increasing employment among small enterprises, the Regional Program has focused on improving the indicator (the unemployment rate) instead of the reality (unemployment).</p>	NA	NA	5,968	6,000
<p>5.9 Foreign Economic Activity Development</p> <p>The subprogram is funded by entrepreneur funds and other sources. Responsibility for subprogram coordination has shifted from a department of the Oblast State Administration to the Enterprises with Foreign Capitals League. The shift away from KRESF funding and government coordination is positive.</p> <p>One of the subprogram's goals is the creation of a favorable investment environment and taxation policy for international cooperation. This is a worthy goal, but the program managers should be careful that they do not create foreign investment incentives that are so great that they create a disadvantage for domestic firms. They also should be careful to ensure that the benefits of foreign investment are distributed as widely as possible among the population of Kharkiv and the surrounding region.</p>	70	70	80	80
<p>5.10 Social Tension Relief</p> <p>This subprogram is new to the 2001-2002 program. The subprogram overlaps a great deal with other components (personnel training, theoretical support, etc.), and its specific focus is unclear. The component is overwhelmingly funded by the Ukrainian Enterprise Support Fund and is coordinated by that Fund's Kharkiv representative. The local officials probably have little control over decisions about use of the state fund's resources.</p>	NA	NA	1,520	1,465
<p>5.11 Innovation Projects Support</p>	NA	NA	2,220	2,220

No. Component	Total Funding (in thousands of UAH)			
	1999	2000	2001	2002
<p>The 1999-2000 program included only one innovation subprogram, Innovative Activities Development. Its funding information is included under the Innovation Development Subprogram.</p> <p>This subprogram is commendable in the identification and attempt at capitalization of Kharkiv Oblast's major competitive advantages. Various recent theories of regional development stress the idea of clustering, which includes the grouping of enterprises of similar or related niches within one geographic area. This permits the sharing of infrastructure that is required by all of the firms in the niche. It is common for such technical and scientific niche clusters to locate near educational institutions that produce employees with specialized knowledge required by the cluster of firms.</p> <p>The existence of a large number of educational institutions, especially technical and scientific centers, within Kharkiv is a great advantage for the regional economy. The innovative projects support subprogram is a correctly oriented component that should be closely monitored and carefully supported.</p>				
6.1 Program Coordination and Monitoring	40	40	--	--
<p>The appearance of removing administrative constraints to small business development within the activities of the program coordination and monitoring component reaffirms the priority assigned to this activity, which is very encouraging. Another improvement in this component is the inclusion of quarterly progress reports among the activities. These reports should be provided to not only the Ministry of Economy and State Enterprise, but also to all program executors and the Kharkiv public in general. Citizens and program participants will be able to provide feedback that is much more useful if they are updated on issues related to the program's implementation.</p> <p>The program management should issue at least a mid-term evaluation at the end of the first year of program implementation to inform business, government, and the public on the program's progress. An annual or biannual summary of program progress, detailed by subprogram and activity, should be included in the next program document.</p>				
Total	1,034	933	19,979	21,617

ANNEX 2
KHARKIV SME SURVEY QUESTIONNAIRE
(Russian version follows English version)

Questionnaire

GENERAL

1. In which year was your business registered?

2. What is the legal/ownership form of your business?

- Private entrepreneur (no legal entity)
 Private company
 Limited liability company
 Open joint stock company without state or municipal shares
 Closed joint stock company without state or municipal shares
 Open Joint stock company with state or municipal shares
 Closed joint stock company with state or municipal shares
 Joint venture without state or municipal shares
 Joint venture without state or municipal shares
 Other (please name) _____

3. What is your company's main activity (product or service that brings most income)?

(Classification of answers will be done after the survey, before computing the results)

4. In how many other activities is the company significantly involved?

1 other 2 other 3 or more other activities

5. What starting capital is necessary, from your point of view, to open the business in the sphere, where you are engaged? (Please, specify an equivalent in US dollars) US\$ _____

6. During 2000, what were your company's sources of operating funds /оборотных средств/
(please provide estimates for percent contribution of sources listed below):

Retained income from company's operations	_____ %
Foreign investor	_____ %
Domestic investor	_____ %
Loan	_____ %
Other (please, specify)	_____ %

7. During 2000, has your company make any capital investments to purchase or improve:

equipment (machinery, vehicles) buildings land

8. If yes, what were sources for these capital investments:

Retained income from company's operations	_____	%
Foreign investor	_____	%
Domestic investor	_____	%
Loan	_____	%
Other (please, specify)	_____	%

9. Comparing with the annual turnover of your company for 2000, how large were these capital investments (as percent of the turnover)? _____%

10. Who owns equipment, machinery, and vehicles that your company uses (if several answers are applicable because of different arrangements regarding different equipment, indicate all of them):

The company itself _____
Individuals working at the company _____
Another company _____
Other (please, specify who) _____

11. If your company uses equipment, machinery and vehicles that it does not own, what are the arrangements (if several answers are applicable because of different arrangements regarding different equipment, indicate all of them)?

Use free of charge _____
Leasing or rent _____
Other (please, specify what) _____

12. Who owns buildings, premises or structures that your company uses (if several answers are applicable because of different arrangements regarding different real estate, indicate all of them):

The company itself _____
Individuals working at the company _____
Another company _____
Local government _____
Central government _____
Other _____

13. If your company uses buildings, premises or structures that it does not own, what are the arrangements?

Use free of charge _____
Rent _____
Other (please, specify what) _____

14. Who owns land underneath buildings, premises or structures that your company uses or other land that your company uses (if several answers are applicable because different arrangements regarding different land sites, indicate all of them):

The company itself _____
Individuals working at the company _____
Another company _____
Local government _____
Central government _____
Other (please, specify what) _____

15. If your company doesn't own land, which it uses, what are arrangements:

Use free of charge _____

Rent _____

Use for payment _____

Other (specify what) _____

16. Was your company earlier part of a larger company? _____ Yes _____ No

17. Did other companies used to be part of your company? _____ Yes _____ No

18. Please check the organizations of which your company is a member.

_____ Trade association

_____ Chamber of Commerce

_____ Business assistance center

_____ Other (name) _____

PERSONNEL

19. How many people work for your company full time? _____

20. Do other people work for your company part time? _____ Yes _____ No

If yes, how many? _____

21. What percentage of the people who work at your company full time are (estimates acceptable):

_____ Women

_____ More than 60 years old

_____ Less than 23 years old

22. During the past six months, has the number of employees

decreased _____ increased _____ the same _____?

By how many persons? _____

23. If your company hired people during the past six months, please indicate which methods you used for finding new-hires (check all that apply):

- Advertised available job in a newspaper or other media
- Solicited individual references through personal contacts
- Placed info at the employment centers
- Other

24. Are the wages of your company's employees in arrears? Yes No

If yes, to what extent?

- Less than one month
- Between one and two months
- More than two months

25. What percent of your payroll is paid in kind?

- Zero percent
- 1-11%
- 11-40%
- 41-70%
- More than 70%

LICENSES AND INSPECTIONS

26. How many licenses does your company have?

27. How many of your activities required two parallel licenses – one for the company, one for a professional working at the company?

28. Did your activity require obtaining permits, different from licenses? Yes No

29. If yes, from whom (check all that apply)

- Land Resources Department
- Urban Planning and Architecture Department
- Fire Department
- Labor Safety Committee
- Sanitary Epidemiological Supervision Service
- Energy Saving Inspectorate
- Environmental Safety Department
- Other (name)

30. During the year 2000, how many times has your company been inspected?

31. By whom? (Please use the table below to indicate number of visits by various inspectors)

Inspectors	How many times during the year 2000
Tax Administration	
Tax Militia	
Fire Department	
Police Department	
Sanitary/Epidemic Station	
Ministry of Environment	
Committee on Standardization	
Consumer Protection Committee	
Anti-monopoly Committee	
Department of Architecture	
Customs	
State Control and Revision Service	
State Treasury	
Department for fight against organized criminals	
Security service of Ukraine	
Trade department	
Others (name):	

32. How many person-days has your company staff spent during 2000 to deal with inspectors and consequences of inspections (estimates acceptable)? _____ person-days

33. What is the estimated total amount, as a percentage of your annual turnover, of fines imposed on your company and various other payments incurred by your company as a result of these inspections ____ %

34. Has your company been ever asked for any additional payments over established by the legislation at permits, licensing, inspections, etc.?
 _____ Never.
 _____ Sometimes.
 _____ Frequently.
 _____ Always.

35. Has the overall situation with inspections improved for your company in 2000 comparing with 1999?

TAXES and FEES

36. How many taxes and fees does your company pay?

37. Does your company participate in the simplified tax system?

- No
 Yes, it pays 6% of its turnover with VAT paid separately
 Yes, it pays 10% of its turnover, which includes VAT
 Yes, other (name) _____

38. What percentage of turnover does your company's tax and fee payments represent?

- 0%
 1-10%
 11-20%
 21-30%
 31-40%
 41-50%
 51-60%
 more than 60%

39. Are any of the taxes your company pays particularly burdensome (check all that apply)?

- None
 Profit tax
 Payroll taxes
 VAT
 Income tax
 Excise taxes
 State funds
 Others (name) _____

40. Has the overall taxation situation for your company improved in 2000 comparing to 1999?

- Yes
 No
 Not certain about this

CLIENTS/CONSUMERS

41. Please indicate the approximate percentage of your production (goods/services) that is consumed by clients of the following types:

- government and government agencies, budgetary organizations _____ %
companies _____ %
individual consumers _____ %

42. During the past year, how many companies (not individuals) have been your clients?

- 0
 1-5

- _____ 5-10
- _____ 10-15
- _____ More than 15

43. What is the largest percentage of production (goods / services) consumed by a single one of these clients?

- _____ 1-10 %
- _____ 10-20 %
- _____ 20-30 %
- _____ 30-40 %
- _____ 40-50 %
- _____ More than 50%

44. Please indicate the approximate percentage of your production (goods/services) that is consumed by clients in the following regions:

- _____ % to clients in Kharkiv city
- _____ % to clients in the rest of Kharkiv oblast (excluding the city)
- _____ % to clients in the rest of Ukraine (excluding Kharkiv oblast)
- _____ % to clients in Russia and other NIS countries
- _____ % to clients in other countries (please list) _____

SUPPLIERS

45. Please indicate the approximate percentage of your inputs that were provided by suppliers of the following types:

- government, government agencies and budgetary organizations _____ %
- companies _____ %
- individuals _____ %

46. During the past year, how many suppliers has your company had?

- _____ 0
- _____ 1-5
- _____ 5-10
- _____ 10-15
- _____ More than 15

47. What is the largest percentage of inputs supplied by a single one of these suppliers?

- _____ 1-10 %
- _____ 10-20 %
- _____ 20-30 %

- _____ 30-40 %
- _____ 40-50 %
- _____ More than 50%

48. Please indicate the approximate percentage of your company's inputs that is received from suppliers in the following regions:

- _____ % from suppliers in Kharkiv city
- _____ % from suppliers in the rest of Kharkiv oblast (excluding the city)
- _____ % from suppliers in the rest Ukraine (excluding Kharkiv oblast)
- _____ % from suppliers in Russia and other NIS countries
- _____ % from suppliers in other countries (please list)

PERFORMANCE

49. What were the two most significant problems facing your company in 2000?

Problems	Most Significant (select only one)	Second Most Significant (select only one)
Administrative controls by public agencies (registration/ permits / licenses / inspections / sanctions together)		
Existing tax system		
Frequently changing legislation		
Complexity of book-keeping and reporting		
Inadequate equipment		
Inflation		
Labor availability and cost		
Obtaining credit (availability / interest rates)		
Lack of working capital (turnaround means, оборотных средств)		
Shortages of raw materials / inputs		
Absence of a premise		
Lack of demand for goods and services produced		
Low market demand for company's goods/services		
Lack of business information		
Lack of business experience and knowledge		

Pressure from corrupted officials and criminal structures		
Other (name):		

50. Among administrative controls by public agencies, mark the most destructive for your business:

- registration
- permits
- licenses
- inspections
- sanctions
- other (name)

51. Do you think your company will increase production of its current goods and services in the coming year?

Yes No

52. Do you think your company will expand the types of goods and services it produces in the coming year?

Yes No

53. Do you think your company's revenues will increase in the coming year?

Yes No

IMAGINARY COMPANY

And now I ask you to consider (not to name) a small or medium business that you know better than others. This can be owned by a man or a woman, yourself or a neighbor, a friend or relative; it does not matter. It is only important that you have in mind the same business when answering all of the following questions.

54. Do you have such a small or medium business in mind? Yes
 No

55. How many employees are in this business?

- _____ Just one
- _____ 1-5
- _____ 6-10
- _____ 11-50
- _____ 51-250
- _____ more than 250

56. When economic conditions in the country are hard, entrepreneurs are often forced to find a way out by underreporting their activities, establishing informal relations with public officials and use other similar techniques. For development of Kharkiv region and improving its business climate, its important to estimate the scale of such a phenomena in general. Tell me please whether you have ever heard about such techniques of business activities?

_____ yes _____ no _____ refused

57. Is the business, which you have in mind, registered or unregistered?

_____ registered _____ not registered

58. What do you think is percentage of total taxes and fees that this business actually pays?

_____ %

59. Which methods does this business use to evade taxation (check all that apply)?

- _____ Gets part of its revenues in cash
- _____ Employs part of people informally, without paying social taxes for them
- _____ Under-reports production in its financial reports
- _____ Gets part of his revenues to an unregistered account in a foreign bank
- _____ Registers revenues with people who have privileges in taxation
- _____ Deducts expenses for the items that envisage a smaller tax rate
- _____ Registers firm in an off-shore zone abroad or in a free economic zone in Ukraine
- _____ Hard to say/ Don't know (HS/DK)
- _____ Don't want to answer

60. In such conditions that are faced by your imaginary company, is it possible for this business to operate without establishing informal relations with authorities?

_____ yes
_____ no
_____ HS/DK

61. With which agency's officials are informal relations most important?

_____ Ministries, other central state executive agencies

- _____ President's administration
- _____ Verkhovna rada
- _____ State-owned or semi-state-owned banks
- _____ State television
- _____ Oblast authorities
- _____ Municipal authorities
- _____ Rayon authorities, local self-government
- _____ Customs
- _____ Tax inspection
- _____ Prosecutor's office
- _____ Police
- _____ Other (please name) _____
- _____ HS/DK
- _____ Refused to answer

62. Does the business, which you have in mind, have to give part of its profits to representatives of any public agencies? If yes, what percentage of its profit?

_____ % (if the answer is negative, write 0)
_____ HS/DK

63. Does the business have to give part of its turnover to representatives of unofficial force groups (racket, etc.)? If yes, what percentage?

_____ % (if the answer is negative, write 0)
_____ HS/DK

64. What would be a rational tax for this enterprise to pay?

_____ %
_____ HS/DK

QUESTIONS FOR THE SURVEYOR

Survey date and time:

Duration of interview:

Names and positions of interviewees:

Contact phone numbers:

Mailing addresses: postal code, oblast, municipality, street and building number, apartment or office number

Location (if different from mailing address):

To what extent the respondent was sincere when answering questions:

- _____ Absolutely sincere
- _____ Rather sincere
- _____ Sometimes yes, sometimes - no
- _____ Quite insincere

Survey team:

Name of interviewer:

Signature of interviewer:

Name of supervisor:

Signature of supervisor:

Анкета

Обзор экономической активности
малых и средних предприятий
Харьковской области

Общие вопросы

1. В каком году было зарегистрировано ваше предприятие? _____
2. Форма собственности вашего предприятия:
_____ Частный предприниматель (не юридическое лицо)
_____ Частная компания
_____ Общество с ограниченной ответственностью
_____ Открытое акционерное общество без участия государства
_____ Закрытое акционерное общество без участия государства
_____ Открытое акционерное общество с участием государства
_____ Закрытое акционерное общество с участием государства
_____ Совместное предприятие с государственными вложениями
_____ Совместное предприятие без государственных вложений
_____ Другое (пожалуйста, укажите)
3. Основная деятельность вашей компании (продукция или услуги, приносящие основной доход)
4. Сколько других видов деятельности ведёт ваша компания
_____ 1 _____ 2 _____ 3 или более
5. Какой стартовый капитал необходим с вашей точки зрения, для того чтобы открыть бизнес в вашей сфере деятельности (пожалуйста, укажите эквивалент в долларах США) \$ _____
6. Каковы были источники оборотных средств вашей компании в 2000 году (пожалуйста, оцените в процентном соотношении источники указанные ниже)
Доход от деятельности компании _____ %
Иностранные инвестиции _____ %
Отечественные инвестиции _____ %
Заём _____ %
Другое(укажите) _____ %
7. Делала ли ваша компания капитальные вложения в покупку или усовершенствования в 2000
Оборудования (станки, транспортные средства) _____

Здания _____
Земля _____

8. Если да, то каковы были источники этих капиталовложений?

Доход от деятельности компании _____ %
Иностранные инвестиции _____ %
Отечественные инвестиции _____ %
Заём _____ %
Другое(укажите) _____ %

9. Сравните капвложения 2000 года с годовым оборотом вашей компании. Каковы были капиталовложения (% к обороту)?

_____ %

10. Кто является владельцем оборудования, станков, транспортных средств, которые использует ваша компания (если подходят несколько вариантов ответов из-за различных условий для различного оборудования, укажите их все)

_____ Сама компания
_____ Частные лица, работающие в компании
_____ Другая компания
_____ Другое (укажите кто)

11. Если ваша компания использует оборудование, станки, транспортные средства, которые ей не принадлежат, то укажите на каких условиях вы ими пользуетесь (если подходят несколько вариантов ответов из-за различных условий для различного оборудования, укажите их все)

_____ Пользуемся бесплатно
_____ Лизинг или аренда
_____ Другое (укажите что)

12. Кому принадлежат здания, помещения или строения, которые используются вашей компанией (если подходят несколько вариантов ответов из-за различных форм недвижимости, укажите их все)

_____ Компании
_____ Частным лицам, работающим в компании
_____ Другой компании
_____ Местным властям
_____ Центральным властям
_____ Другое

13. Если ваша компания использует недвижимость, которая ей не принадлежит, то каковы условия договора

- Пользуемся бесплатно
- Арендуем
- Другое (укажите что)

14. Кому принадлежит земля, на которой расположены здания, помещения или строения, которые использует ваша компания, или другая земля используемая вашей компанией (если возможны несколько вариантов ответов из-за различных договорённостей относительно различных участков земли, укажите их все)

- Собственно компании
- Частным лицам работающим в компании
- Другой компании
- Местным властям
- Центральным властям
- Другое (укажите что)

15. Если земля, которую использует ваша компания, ей не принадлежит, то на каких условиях она используется?

- Бесплатно
- Аренда
- Используется за плату
- Другое (укажите что)

16. Была ли ваша компания ранее частью какой-либо более крупной компании?

да _____ нет _____

17. Была ли какая-либо другая компания раньше частью вашей компании?

да _____ нет _____

18. Пожалуйста, отметьте организации членом которых является ваша компания

- Ассоциация профсоюзов
- Торговая палата
- Центр помощи бизнесу
- Другое (назовите)

ПЕРСОНАЛ

19. Сколько человек работают полный рабочий день в вашей компании?

20. Есть ли в вашей компании работники с неполным рабочим днём?

_____ да _____ нет

Если да, то сколько? _____

21. Каков процент работников занятых полный рабочий день (оцените если возможно)?

_____ женщины
_____ старше 60 лет
_____ младше 23 лет

22. За последние 6 месяцев количество работников

уменьшилось _____ увеличилось _____ осталось тем же _____?
На сколько человек? _____

23. Если ваша компания нанимала на работу людей за последние 6 месяцев, пожалуйста, укажите какими методами для набора персонала вы пользовались (отметьте все подходящие):

_____ Давали рекламу в газетах или других СМИ
_____ Находили подходящего человека, используя личные контакты
_____ Обращались за помощью в агентства по трудоустройству
_____ Другое

24. Имеет ли ваша компания задолженность по зарплате?

_____ да _____ нет

Если да, то за какой период?

_____ Меньше чем один месяц
_____ Около одного или двух месяцев
_____ Больше двух месяцев

25. Какой % зарплаты выплачивается в натуральной форме?

_____ 0%
_____ 1-11%
_____ 11-40%
_____ 41-70%
_____ больше 70%

лицензии и проверки

26. Сколько лицензий имеет ваша компания? _____
27. Сколько видов деятельности вашей компании требуют параллельных лицензий – одну для компании, другую – для специалиста работающего в компании?

28. Требуется ли деятельность, которой вы занимаетесь, получения каких-либо других разрешений, кроме лицензий? _____ да _____ нет
29. Если да, то от кого?
- _____ Управление земельных ресурсов
 - _____ Управление архитектуры и городского планирования
 - _____ Пожарники
 - _____ Комитет по защите труда
 - _____ Санитарно-эпидемиологическая служба
 - _____ Инспекция по сохранению энергии
 - _____ Управление по защите окружающей среды
 - _____ Другое (назовите)
30. Сколько раз за 2000 год ваша компания подвергалась проверкам?
31. Кто проверял? (пожалуйста, используйте таблицу, чтобы указать количество проверок различными инспекторами)

Проверяющие	Сколько раз за 2000 год
Налоговая администрация	
Налоговая милиция	
Органы противопожарного контроля	
МВД	
Санитарно-эпидемиологическая служба	
Министерство экологии и природных ресурсов Украины	
Комитет по стандартизации	
Управление по защите прав потребителей	
Антимонопольный комитет	
Управление архитектуры	
Таможенная служба	
Государственные контролирующие и проверяющие органы	
Государственное казначейство	
ОБОП	
СБУ	
Управление торговли	
Другое (назовите)	

32. Сколько человеко-дней ваша компания потратила в 2000 году на работу с проверяющими и устранение последствий проверок (оцените то, что возможно)?

_____ человеко-дней

33. Как вы оцениваете сумму, в % от вашего годового оборота, штрафов, наложенных на вашу компанию, а также различных других платежей, выплаченных вами в результате этих проверок?

_____ %

34. Предлагалось ли вашей компании когда-либо платить сверх установленного по законодательству за разрешения, лицензии, проверки и т.д.?

_____ Никогда

_____ Иногда

_____ Часто

_____ Всегда

35. Улучшилась ли ситуация с проверками в целом для вашей компании в 2000 по сравнению с 1999 годом? _____

НАЛОГИ И ПЛАТЕЖИ

36. Сколько налогов и платежей выплачивает ваша компания?

37. Платит ли ваша компания налоги по упрощённой системе?

_____ Нет

_____ Да, 6% от оборота + НДС

_____ Да, 10% от оборота, включая НДС

_____ Да, другое (укажите)

38. Сколько % от оборота вашей компании составляют налоги и платежи?

_____ 0%

_____ 1-10%

_____ 11-20%

_____ 21-30%

_____ 31-40%

_____ 41-50%

_____ 51-60%

_____ больше 60%

39. Являются ли некоторые налоги, которые платит ваша компания особенно тяжелыми для вас?

- Нет
- Налог на прибыль
- Налог на заработную плату
- НДС
- Подоходный налог
- Акцизный сбор
- Государственный сбор
- Другое (укажите)

40. Улучшилась ли налоговая ситуация в целом для вашей компании в 2000 по сравнению с 1999 годом?

- Да
- Нет
- Не уверен

КЛИЕНТЫ/ПОТРЕБИТЕЛИ

41. Укажите, пожалуйста, приблизительный % вашей продукции (товары/услуги) который потребляется следующими категориями клиентов:

- Правительство и правительственные организации, а также бюджетные организации %
- Компании %
- Частные потребители %

42. Сколько компаний в прошлом году были вашими клиентами?

- 0
- 1-5
- 5-10
- 10-15
- больше 15

43. Каков самый большой % продукции (товаров/услуг) был потреблён одним из этих клиентов?

- 1-10%
- 10-20%
- 20-30%
- 30-40%
- 40-50%
- более 50%

44. Пожалуйста, укажите приблизительный % продукции (товаров/услуг) который потребляется клиентами в следующих регионах:

- _____ % Харьков
- _____ % Харьковская область (исключая город)
- _____ % Остальная Украина (исключая Харьковскую область)
- _____ % Россия и другие страны СНГ
- _____ % Другие страны (перечислите, пожалуйста)

поставщики

45. Укажите приблизительно % поставок от поставщиков следующих категорий:

- _____ Правительство, правительственные и бюджетные организации
- _____ Компании
- _____ Частные лица

46. Сколько поставщиков имела ваша компания в прошлом году?

- _____ 0
- _____ 1-5
- _____ 5-10
- _____ 10-15
- _____ более 15

47. Каков наибольший % поставок от одного поставщика?

- _____ 1-10%
- _____ 10-20%
- _____ 20-30%
- _____ 30-40%
- _____ 40-50%
- _____ более 50%

48. Каков процент поставок вашей компании был получен от поставщиков из следующих регионов:

- _____ % Харьков
- _____ % Харьковская область (исключая город)
- _____ % Остальная Украина (исключая Харьковскую область)
- _____ % Россия и другие страны СНГ
- _____ % Другие страны (перечислите, пожалуйста)

показатели ДЕЯТЕЛЬНОСТИ

49. Каковы две самые большие проблемы, с которыми столкнулась ваша компания в 2000?

Проблемы	Наиболее значительная (выберите только одну)	Вторая по значимости (выберите только одну)
Административное регулирование государственными организациями (регистрация/разрешения/проверки/санкции)		
Существующая налоговая система		
Часто меняющееся законодательство		
Сложность бухгалтерии и отчетности		
Неподходящее оборудование		
Инфляция		
Доступность трудовых ресурсов и их цена		
Получение кредита (возможность получения и/или проценты по кредитам)		
Недостаток рабочего капитала (оборотных средств)		
Недостаток сырья/поставок		
Отсутствие помещения		
Недостаток рыночного спроса на производимые товары и услуги		

Недостаточность деловой информации		
Недостаток делового опыта и знаний		
Давление со стороны коррумпированных чиновников и криминальных структур		
Другое (назовите)		

50. Что среди административного регулирования государственными органами является на ваш взгляд наиболее деструктивным:

- Регистрация
- Разрешения
- Лицензии
- Проверки
- Санкции
- Другое (укажите)

51. Как вы думаете, увеличит ли ваша компания объем выпуска продукции (товаров/услуг) в следующем году?

- Да
- Нет

52. Будет ли ваша компания расширять ассортимент товаров и услуг в следующем году?

- Да
- Нет

53. Как вы думаете, увеличатся ли доходы вашей компании в следующем году?

- Да
- Нет

ВООБРАЖАЕМАЯ КОМПАНИЯ

Теперь я попрошу вас рассмотреть (не называя) малое или среднее предприятие, которое вы знаете лучше других. Оно может принадлежать мужчине или женщине, вам лично или вашему соседу, другу или родственнику, это не имеет значения. Важно только лишь отвечать на все вопросы об одном и том же предприятии.

54. Вы имеете на примете такое предприятие?

_____ Да
_____ Нет

55. Сколько работников на этом предприятии?

_____ Всего один
_____ 1-5
_____ 6-10
_____ 11-50
_____ 51-250
_____ больше чем 250

56. Когда экономическая ситуация в стране тяжёлая, предприятия часто вынуждены находить пути сокрытия своей деятельности, установления неформальных отношений с госчиновниками и использования других подобных методов. Для развития Харьковской области и улучшения бизнес климата важно оценить масштаб этих явлений в целом.

Скажите, вы когда либо слышали о подобных методах ведения бизнес деятельности?

Да _____ нет _____ отказываюсь отвечать _____

57. Бизнес, о котором вы говорите, зарегистрирован или нет?

Да _____ нет _____

58. Как вы думаете, каков % от всех причитающихся налогов и платежей, реально выплачиваемый этим предприятием? _____%

59. Какие методы используются на этом предприятии, чтобы избежать налогообложения (отметьте все подходящие)?

_____ Получение части доходов наличными
_____ Неофициальный наём работников, без выплаты налогов на них
_____ Сокрытие части продукции
_____ Получение части доходов на незарегистрированный счёт в заграничном банке
_____ Регистрация доходов на людей имеющих привилегии по налогам

_____ Вычитание расходов на что-то, что предполагает меньший уровень налогов

_____ Регистрация фирмы в оффшорной зоне за рубежом или в СЭЗ на Украине

_____ Трудно сказать/не знаю (ТС/НЗ)

_____ Не хочу отвечать

_____ %

_____ ТС/НЗ

60. Возможно ли в тех условиях, в которых оказалась ваша предполагаемая компания, работать без установления неофициальных отношений с властями?

_____ Да

_____ Нет

_____ ТС/НЗ

61. С какими государственными чиновниками неофициальные взаимоотношения наиболее важны?

_____ Министерства, другие центральные исполнительские организации

_____ Администрация президента

_____ Верховная Рада

_____ Государственные или полугосударственные банки

_____ Государственное телевидение

_____ Областные власти

_____ Городские власти

_____ Районные власти, самоуправление

_____ Таможня

_____ Налоговая инспекция

_____ Прокуратура

_____ Милиция

_____ Другое (назовите)

_____ ТС/НЗ

_____ Отказываюсь отвечать

62. Приходится ли предприятию, которое вы имеете в виду, отдавать часть своей прибыли представителям госструктур? Если да, то какой %?

_____ %

_____ ТС/НЗ

63. Приходится ли предприятию, которое вы имеете в виду, отдавать часть своих доходов представителям неофициальных силовых структур (рэкет, и т.п.)? Если да, то какой %?

_____ % (если ответ отрицательный, напишите 0)

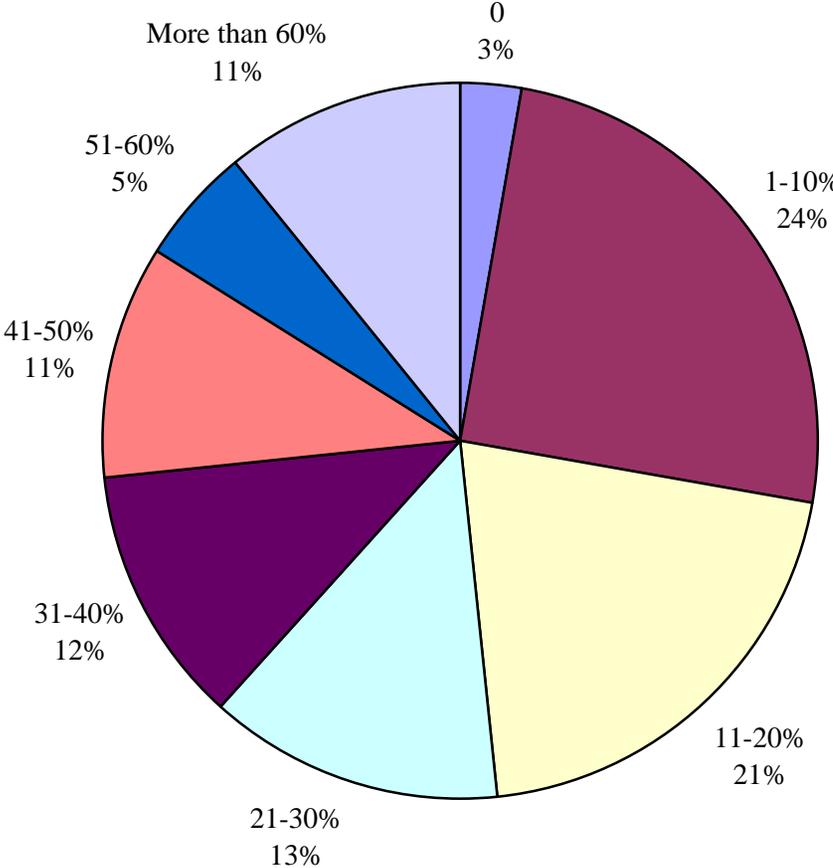
_____ ТС/НЗ

64. Каков должен быть общий уровень налогов (в % от оборота), чтобы предприятие могло платить их полностью?

_____ %

_____ ТС/НЗ

What percentage of turnover do your company's tax and fee payments represent?



ANNEX 3 STATISTICAL PRESENTATION OF KHARKIV SURVEY RESULTS

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
GENERAL				
1 In which year was your business registered?	115	1.00	0.94	1995.76
1997	19	0.17	0.16	329.94
1999	18	0.16	0.15	312.89
1996	18	0.16	0.15	312.42
1998	14	0.12	0.11	243.23
2000	9	0.08	0.07	156.52
1995	9	0.08	0.07	156.13
Unanswered/blank	7	0.06	0.06	
1992	6	0.05	0.05	103.93
1994	5	0.04	0.04	86.70
1993	5	0.04	0.04	86.65
1991	4	0.03	0.03	69.25
1989	3	0.03	0.02	51.89
1990	2	0.02	0.02	34.61
2001	1	0.01	0.01	17.40
1988	1	0.01	0.01	17.29
1945	1	0.01	0.01	16.91
2 What is the legal/ownership form of your company?	121	1.00	0.99	
Limited liability company	52	0.43	0.43	
Private entrepreneur (no legal entity)	29	0.24	0.24	
Private company	14	0.12	0.11	
Closed joint stock company without state or municipal shares	11	0.09	0.09	
Joint venture with state or municipal shares	9	0.07	0.07	
Open joint stock company without state or municipal shares	2	0.02	0.02	
Open joint stock company with state or municipal shares	2	0.02	0.02	
Closed joint stock company with state or municipal shares	1	0.01	0.01	
Joint venture without state or municipal shares	1	0.01	0.01	
Unanswered	1	0.01	0.01	
3 What is your company's main activity?	122	1.00	1.00	
Wholesale trade	27	0.22	0.22	
Retail trade	19	0.16	0.16	
Building, Developing, and General Contracting	11	0.09	0.09	
Food Manufacturing	5	0.04	0.04	
Professional, Scientific, and Technical Services	5	0.04	0.04	
Apparel Manufacturing	4	0.03	0.03	
Information Services and Data Processing Services	4	0.03	0.03	
Repair and Maintenance	4	0.03	0.03	
Animal Production	3	0.02	0.02	
Educational Services	3	0.02	0.02	
Insurance Carriers and Related Activities	3	0.02	0.02	
Management of Companies and Enterprises	3	0.02	0.02	
Chemical Manufacturing	2	0.02	0.02	
Crop Production	2	0.02	0.02	
Fabricated Metal Product Manufacturing	2	0.02	0.02	

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Food Services and Drinking Places	2	0.02	0.02	
Funds, Trusts, and Other Financial Vehicles	2	0.02	0.02	
Miscellaneous Manufacturing	2	0.02	0.02	
Publishing Industries	2	0.02	0.02	
Transportation Equipment Manufacturing	2	0.02	0.02	
Administration of Economic Programs	1	0.01	0.01	
Administrative and Support Services	1	0.01	0.01	
Amusement, Gambling, and Recreation Industries	1	0.01	0.01	
Computer and Electronic Product Manufacturing	1	0.01	0.01	
Electrical Equipment, Appliance, and Component Manufacturing	1	0.01	0.01	
Hospitals	1	0.01	0.01	
Machinery Manufacturing	1	0.01	0.01	
Motion Picture and Sound Recording Industries	1	0.01	0.01	
Personal and Laundry Services	1	0.01	0.01	
Plastics and Rubber Products Manufacturing	1	0.01	0.01	
Securities, Commodity Contracts, and Other Financial Investments and Related Activities	1	0.01	0.01	
Support Activities for Agriculture and Forestry	1	0.01	0.01	
Truck Transportation	1	0.01	0.01	
Utilities	1	0.01	0.01	
Wood Product Manufacturing	1	0.01	0.01	

4 In how many other activities is the company significantly involved?

82 1.00 0.67

One other	39	0.48	0.32
Two other	26	0.32	0.21
Three or more other	17	0.21	0.14
Unanswered	40	0.49	0.33

5 What starting capital is necessary to open a business in your field?

116 1.00 0.95 \$165,876.29

10,000.00	18	0.16	0.15	1551.72
5,000.00	17	0.15	0.14	732.76
20,000.00	12	0.10	0.10	2068.97
100,000.00	9	0.08	0.07	7758.62
50,000.00	8	0.07	0.07	3448.28
<i>Unanswered</i>	6	0.05	0.05	
3,000.00	6	0.05	0.05	155.17
30,000.00	5	0.04	0.04	1293.10
15,000.00	5	0.04	0.04	646.55
200,000.00	4	0.03	0.03	6896.55
1,000.00	4	0.03	0.03	34.48
25,000.00	3	0.03	0.02	646.55
6,000.00	3	0.03	0.02	155.17
2,000.00	3	0.03	0.02	51.72
500,000.00	2	0.02	0.02	8620.69
12,000.00	2	0.02	0.02	206.90
1,500.00	2	0.02	0.02	25.86
10,000,000.00	1	0.01	0.01	86206.90
3,000,000.00	1	0.01	0.01	25862.07
2,000,000.00	1	0.01	0.01	17241.38
150,000.00	1	0.01	0.01	1293.10

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
60,000.00	1	0.01	0.01	517.24
40,000.00	1	0.01	0.01	344.83
7,000.00	1	0.01	0.01	60.34
3,500.00	1	0.01	0.01	30.17
2,500.00	1	0.01	0.01	21.55
500.00	1	0.01	0.01	4.31
60.00	1	0.01	0.01	0.52
50.00	1	0.01	0.01	0.43
40.00	1	0.01	0.01	0.34

6 During 2000, what percentage of your company's operating funds came from the following sources?

111 1.00 0.91

No to all (all blank)	11	0.10	0.09
-----------------------	----	------	------

6a Retained Income

71.71

100	51	0.46	0.42	45.95
Unanswered (blank/zero)	20	0.18	0.16	
80	10	0.09	0.08	7.21
90	7	0.06	0.06	5.68
10	6	0.05	0.05	0.54
70	4	0.04	0.03	2.52
50	4	0.04	0.03	1.80
20	4	0.04	0.03	0.72
40	3	0.03	0.02	1.08
30	3	0.03	0.02	0.81
60	2	0.02	0.02	1.08
5	2	0.02	0.02	0.09
99	1	0.01	0.01	0.89
95	1	0.01	0.01	0.86
93	1	0.01	0.01	0.84
85	1	0.01	0.01	0.77
83	1	0.01	0.01	0.75
15	1	0.01	0.01	0.14

6b Foreign Investment

1.71

Unanswered (blank/zero)	117	1.05	0.96	
40	2	0.02	0.02	0.72
60	1	0.01	0.01	0.54
30	1	0.01	0.01	0.27
20	1	0.01	0.01	0.18

6c Domestic Investment

1.08

Unanswered (blank/zero)	119	1.07	0.98	
70	1	0.01	0.01	0.63
40	1	0.01	0.01	0.36
10	1	0.01	0.01	0.09

6d Loan

12.17

Unanswered (blank/zero)	81	0.73	0.66	
20	11	0.10	0.09	1.98
30	7	0.06	0.06	1.89
50	5	0.05	0.04	2.25
10	5	0.05	0.04	0.45

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses	
	70	3	0.03	0.02	1.89
	40	3	0.03	0.02	1.08
	100	1	0.01	0.01	0.90
	90	1	0.01	0.01	0.81
	80	1	0.01	0.01	0.72
	8	1	0.01	0.01	0.07
	7	1	0.01	0.01	0.06
	5	1	0.01	0.01	0.05
	1	1	0.01	0.01	0.01

6e Other 5.62

Unanswered (blank/zero)	105	0.95	0.86		
	10	5	0.05	0.04	0.45
	100	2	0.02	0.02	1.80
	50	2	0.02	0.02	0.90
	30	2	0.02	0.02	0.54
	5	2	0.02	0.02	0.09
	95	1	0.01	0.01	0.86
	80	1	0.01	0.01	0.72
	20	1	0.01	0.01	0.18
	9	1	0.01	0.01	0.08

6f Other (specify)

Unanswered (blank/zero)	113	1.02	0.93
personal savings	4	0.04	0.03
founders	2	0.02	0.02
credit 50000 hrs	1	0.01	0.01
credits of bank	1	0.01	0.01
personal	1	0.01	0.01

7 During 2000, has your company made any capital investments to purchase or improve:

68 1.00 0.56

Equipment	55	0.81	0.45
No to all	54	0.79	0.44
Buildings	23	0.34	0.19
Land	7	0.10	0.06

8 If yes, what percentage of the investments came from the following sources?

68 1.00 0.56

No to all (all blank)	54	0.79	0.44
-----------------------	----	------	------

8a Retained income

71.25

Unanswered (blank/zero)	63	0.93	0.52		
	100	35	0.51	0.29	51.47
	80	7	0.10	0.06	8.24
	50	6	0.09	0.05	4.41
	90	2	0.03	0.02	2.65
	30	2	0.03	0.02	0.88
	20	2	0.03	0.02	0.59
	93	1	0.01	0.01	1.37
	60	1	0.01	0.01	0.88

		Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
		40	1	0.01	0.59
		10	1	0.01	0.15
		2	1	0.01	0.03
8b Foreign Investment					0.29
	Unanswered (blank/zero)	121	1.78	0.99	
	20	1	0.01	0.01	0.29
8c Domestic Investment					2.21
	Unanswered (blank/zero)	120	1.76	0.98	
	100	1	0.01	0.01	1.47
	50	1	0.01	0.01	0.74
8d Loan					13.79
	Unanswered (blank/zero)	100	1.47	0.82	
	20	6	0.09	0.05	1.76
	50	4	0.06	0.03	2.94
	100	3	0.04	0.02	4.41
	10	2	0.03	0.02	0.29
	90	1	0.01	0.01	1.32
	70	1	0.01	0.01	1.03
	60	1	0.01	0.01	0.88
	40	1	0.01	0.01	0.59
	30	1	0.01	0.01	0.44
	7	1	0.01	0.01	0.10
	1	1	0.01	0.01	0.01
8e Other					5.44
	Unanswered	115	1.69	0.94	
	100	2	0.03	0.02	2.94
	30	2	0.03	0.02	0.88
	80	1	0.01	0.01	1.18
	20	1	0.01	0.01	0.29
	10	1	0.01	0.01	0.15
8f Other (specify)					
	Unanswered	121	1.78	0.99	
	founders	1	0.01	0.01	
9 What percentage of your company's turnover were these capital investments?		70	1.00	0.57	28.43
	Unanswered (blank/zero)	52	0.74	0.43	
	10	12	0.17	0.10	1.71
	20	9	0.13	0.07	2.57
	30	8	0.11	0.07	3.43
	5	8	0.11	0.07	0.57
	25	4	0.06	0.03	1.43
	1	4	0.06	0.03	0.06
	100	2	0.03	0.02	2.86
	90	2	0.03	0.02	2.57
	80	2	0.03	0.02	2.29
	70	2	0.03	0.02	2.00
	50	2	0.03	0.02	1.43

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
	15	2	0.03	0.02
	12	2	0.03	0.02
	8	2	0.03	0.02
	4	2	0.03	0.02
	2	2	0.03	0.02
	200	1	0.01	0.01
	120	1	0.01	0.01
	60	1	0.01	0.01
	57	1	0.01	0.01
	7	1	0.01	0.01
				0.43
				0.34
				0.23
				0.11
				0.06
				2.86
				1.71
				0.86
				0.81
				0.10

10 Who owns the equipment, machinery and vehicles that your company uses?

112 1.00 0.92

The company itself	83	0.74	0.68
Individuals working at the company	37	0.33	0.30
Another company	14	0.13	0.11
No to all	10	0.09	0.08
Other	3	0.03	0.02

Other (specify)

Unanswered	121	1.08	0.99
founders	1	0.01	0.01

11 If your company uses equipment, machinery and vehicles it does not own, what are the arrangements?

72 1.00 0.59

No to all	50	0.69	0.41
Leasing or rent	50	0.69	0.41
Use free of charge	16	0.22	0.13
Other	6	0.08	0.05

Other (specify)

Unanswered/blank	119	1.65	0.98
paid	1	0.01	0.01
gratuitous contract	1	0.01	0.01
No	1	0.01	0.01

12 Who owns the buildings, premises or structures that your company uses?

118 1.00 0.97

Another company	54	0.46	0.44
Local government	35	0.30	0.29
The company itself	33	0.28	0.27
Individuals working at the company	14	0.12	0.11
Central government	6	0.05	0.05
No to all (all blank)	4	0.03	0.03
Other	3	0.03	0.02

Other (specify)

Unanswered/blank	121	1.03	0.99
individual	1	0.01	0.01

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
13 If your company uses buildings, premises or structures that it does not own, what are the arrangements?	98	1.00		0.80
Rent	94	0.96		0.77
No to all (all blank)	24	0.24		0.20
Use free of charge	4	0.04		0.03
Other	3	0.03		0.02
Other (specify)				
Unanswered/blank	120	1.22		0.98
joint cooperation	1	0.01		0.01
lease	1	0.01		0.01
14 Who owns land underneath buildings, premises or structures that your company uses or other land that your company uses?	113	1.00		0.93
Local government	85	0.75		0.70
Another company	20	0.18		0.16
The company itself	9	0.08		0.07
No to all (all blank)	9	0.08		0.07
Central government	7	0.06		0.06
Individuals working at the company	4	0.04		0.03
Other	1	0.01		0.01
Other (specify)				
Unanswered/blank	121	1.07		0.99
individual on Land law	1	0.01		0.01
15 If your company doesn't own land that it uses, what are the arrangements?	99	1.00		0.81
Rent	90	0.91		0.74
Use free of charge	7	0.07		0.06
Other	2	0.02		0.02
Other (specify)				
Unanswered/blank	122	1.23		1.00
16 Was your company earlier part of a larger company?	NA	NA		NA
Yes	6	NA		0.05
17 Did other companies used to be part of your company?	NA	NA		NA
Yes	9	NA		0.07
18 Please check the organizations of which your company is a member.	53	1.00		0.43

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Trade association	32	0.60	0.26	
Other	13	0.25	0.11	
Business assistance center	11	0.21	0.09	
Chamber of commerce	4	0.08	0.03	
Other (specify)				
Audit Council of Ukraine	1	0.02	0.01	
Business Center	1	0.02	0.01	
Entrepreneurs' Club	1	0.02	0.01	
Kharkiv Insurance League	1	0.02	0.01	
Ukrainian Stock Exchange	1	0.02	0.01	

PERSONNEL

19 How many people work for your company full time? 118 1.00 0.97 17.17

2	11	0.09	0.09	0.19
10	10	0.08	0.08	0.85
8	10	0.08	0.08	0.68
5	10	0.08	0.08	0.42
6	9	0.08	0.07	0.46
3	9	0.08	0.07	0.23
12	8	0.07	0.07	0.81
1	7	0.06	0.06	0.06
15	5	0.04	0.04	0.64
Unanswered (blank/zero)	4	0.03	0.03	
7	4	0.03	0.03	0.24
50	3	0.03	0.02	1.27
4	3	0.03	0.02	0.10
40	2	0.02	0.02	0.68
35	2	0.02	0.02	0.59
25	2	0.02	0.02	0.42
22	2	0.02	0.02	0.37
18	2	0.02	0.02	0.31
194	1	0.01	0.01	1.64
141	1	0.01	0.01	1.19
120	1	0.01	0.01	1.02
100	1	0.01	0.01	0.85
72	1	0.01	0.01	0.61
68	1	0.01	0.01	0.58
60	1	0.01	0.01	0.51
45	1	0.01	0.01	0.38
43	1	0.01	0.01	0.36
38	1	0.01	0.01	0.32
30	1	0.01	0.01	0.25
23	1	0.01	0.01	0.19
21	1	0.01	0.01	0.18
20	1	0.01	0.01	0.17
19	1	0.01	0.01	0.16
17	1	0.01	0.01	0.14
14	1	0.01	0.01	0.12
11	1	0.01	0.01	0.09

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses	
	9	1	0.01	0.01	0.08
20 Do other people work for your company part time?	NA	NA	NA		
Yes	54	NA	0.44		
If yes, how many?	51	1.00	0.42		5.18
Unanswered (blank/zero)	71	1.39	0.58		
2	10	0.20	0.08		0.39
1	8	0.16	0.07		0.16
10	6	0.12	0.05		1.18
4	6	0.12	0.05		0.47
3	6	0.12	0.05		0.35
8	4	0.08	0.03		0.63
5	4	0.08	0.03		0.39
6	3	0.06	0.02		0.35
30	1	0.02	0.01		0.59
15	1	0.02	0.01		0.29
12	1	0.02	0.01		0.24
7	1	0.02	0.01		0.14
21 What percentage of the people who work at your company full time are (estimates acceptable):	93	1.01	0.76		
All unanswered (blank/zero for all options)	29	0.32	0.24		
21a Women	92	1.00	0.75		45.78
Unanswered (blank/zero)	30	0.33	0.25		
100	13	0.14	0.11		14.13
50	12	0.13	0.10		6.52
60	6	0.07	0.05		3.91
30	6	0.07	0.05		1.96
80	5	0.05	0.04		4.35
70	4	0.04	0.03		3.04
20	4	0.04	0.03		0.87
5	4	0.04	0.03		0.22
25	3	0.03	0.02		0.82
12	3	0.03	0.02		0.39
10	3	0.03	0.02		0.33
3	3	0.03	0.02		0.10
90	2	0.02	0.02		1.96
15	2	0.02	0.02		0.33
8	2	0.02	0.02		0.17
4	2	0.02	0.02		0.09
2	2	0.02	0.02		0.04
92	1	0.01	0.01		1.00
75	1	0.01	0.01		0.82
65	1	0.01	0.01		0.71
62	1	0.01	0.01		0.67
43	1	0.01	0.01		0.47
42	1	0.01	0.01		0.46

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses	
	40	1	0.01	0.01	0.43
	35	1	0.01	0.01	0.38
	33	1	0.01	0.01	0.36
	32	1	0.01	0.01	0.35
	26	1	0.01	0.01	0.28
	23	1	0.01	0.01	0.25
	18	1	0.01	0.01	0.20
	11	1	0.01	0.01	0.12
	6	1	0.01	0.01	0.07
	1	1	0.01	0.01	0.01

21b More than 60 years old **13** **1.00** **0.11** **12.38**

Unanswered (blank/zero)	109	8.38	0.89	
1	3	0.23	0.02	0.23
10	2	0.15	0.02	1.54
8	2	0.15	0.02	1.23
5	2	0.15	0.02	0.77
100	1	0.08	0.01	7.69
6	1	0.08	0.01	0.46
4	1	0.08	0.01	0.31
2	1	0.08	0.01	0.15

21c Less than 23 years old **29** **1.00** **0.24** **21.14**

Unanswered (blank/zero)	93	3.21	0.76	
10	5	0.17	0.04	1.72
2	5	0.17	0.04	0.34
1	4	0.14	0.03	0.14
20	3	0.10	0.02	2.07
100	2	0.07	0.02	6.90
5	2	0.07	0.02	0.34
95	1	0.03	0.01	3.28
80	1	0.03	0.01	2.76
40	1	0.03	0.01	1.38
25	1	0.03	0.01	0.86
12	1	0.03	0.01	0.41
11	1	0.03	0.01	0.38
9	1	0.03	0.01	0.31
7	1	0.03	0.01	0.24

22 During the past six months, has the number of employees increased, decreased or remained the same? By how many persons? **115** **1.00** **0.94**

Decreased	15	0.13	0.12	1.28
By				
1	4	0.03	0.03	0.03
3	3	0.03	0.02	0.08
50	1	0.01	0.01	0.43
30	1	0.01	0.01	0.26
20	1	0.01	0.01	0.17
12	1	0.01	0.01	0.10
11	1	0.01	0.01	0.10
5	1	0.01	0.01	0.04

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
	4	1	0.01	0.03
	2	1	0.01	0.02
Increased By	44	0.38	0.36	1.49
	2	9	0.08	0.16
	1	9	0.08	0.08
	3	8	0.07	0.21
	5	4	0.03	0.17
	4	4	0.03	0.14
	Unanswered/blank	3	0.03	
	10	3	0.03	0.26
	20	2	0.02	0.35
	7	2	0.02	0.12
Remained the same	56	0.49	0.46	0.49
Unanswered	7	0.06	0.06	

23 If your company hired people during the past six months, please indicate which methods you used for finding new hires (check all that apply):

90 0.74

Solicited individual references through personal contacts	76	0.84	0.62
All unanswered (blank/zero for all options)	32	0.36	0.26
Advertised available job in a newspaper or other media	20	0.22	0.16
Placed information at the employment centers	14	0.16	0.11
Other	3	0.03	0.02

Other (specify)

Unanswered/blank	122	1.36	1.00
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24 Are the wages of your company's employees in arrears?

NA NA NA

Yes	24	NA	0.20
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If yes, to what extent?

23 1.00 0.19

Unanswered/blank	99	4.30	0.81
Between one and two months	13	0.57	0.11
More than two months	7	0.30	0.06
Less than one month	3	0.13	0.02

25 What percent of your payroll is paid in kind?

110 1.00 0.90

Zero percent	86	0.78	0.70
Unanswered/blank	12	0.11	0.10
1-10%	11	0.10	0.09
More than 70%	5	0.05	0.04
41-70%	4	0.04	0.03
11-40%	4	0.04	0.03

		Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
LICENSES AND INSPECTIONS					
26	How many licenses does your company have?	77	1.00	0.63	1.60
	Unanswered (blank/zero)	45	0.58	0.37	
	1	32	0.42	0.26	0.42
	2	22	0.29	0.18	0.57
	0	11	0.14	0.09	0.00
	3	6	0.08	0.05	0.23
	4	3	0.04	0.02	0.16
	6	2	0.03	0.02	0.16
	5	1	0.01	0.01	0.06
27	How many of your activities required two parallel licenses--one for the company, one for a professional working at the company?	35	1.00	0.29	1.31
	Unanswered (blank/zero)	87	2.49	0.71	
	1	16	0.46	0.13	0.46
	2	10	0.29	0.08	0.57
	0	6	0.17	0.05	0.00
	3	2	0.06	0.02	0.17
	4	1	0.03	0.01	0.11
28	Did your activity require obtaining permits, different from licenses?	NA	NA	NA	
	Yes	70	NA	0.57	
29	If yes, from whom (check all that apply)?	70	1.00	0.57	
	Fire Department	56	0.80	0.46	
	No to all	52	0.74	0.43	
	Sanitary Epidemiological Supervision Service	48	0.69	0.39	
	Labor Safety Committee	21	0.30	0.17	
	Urban Planning and Architecture Department	20	0.29	0.16	
	Energy Saving Inspectorate	19	0.27	0.16	
	Other	18	0.26	0.15	
	Environmental Safety Department	18	0.26	0.15	
	Land Resources Department	14	0.20	0.11	
	Other (specify)				
	Unanswered/blank	115		0.94	
	Quality Certificate	1		0.01	
	regional state trade department	1		0.01	
	state stock committee	1		0.01	
	Tax Administration	1		0.01	
	Tax inspection	1		0.01	
	trade department	1		0.01	
	valuable papers commission	1		0.01	
30	During the year 2000, how many times has your company been inspected?				

		Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
		111	1.00	0.91	9.48
	3	17	0.15	0.14	0.46
	4	13	0.12	0.11	0.47
	2	12	0.11	0.10	0.22
	Unanswered (blank/zero)	11	0.10	0.09	
	7	10	0.09	0.08	0.63
	1	9	0.08	0.07	0.08
	8	6	0.05	0.05	0.43
	10	5	0.05	0.04	0.45
	9	5	0.05	0.04	0.41
	6	5	0.05	0.04	0.27
	5	4	0.04	0.03	0.18
	0	3	0.03	0.02	0.00
	26	2	0.02	0.02	0.47
	22	2	0.02	0.02	0.40
	15	2	0.02	0.02	0.27
	12	2	0.02	0.02	0.22
	11	2	0.02	0.02	0.20
	130	1	0.01	0.01	1.17
	71	1	0.01	0.01	0.64
	50	1	0.01	0.01	0.45
	49	1	0.01	0.01	0.44
	36	1	0.01	0.01	0.32
	32	1	0.01	0.01	0.29
	25	1	0.01	0.01	0.23
	21	1	0.01	0.01	0.19
	20	1	0.01	0.01	0.18
	17	1	0.01	0.01	0.15
	16	1	0.01	0.01	0.14
	14	1	0.01	0.01	0.13
31 By whom?		122	1.00	1.00	8.87
31a Tax Administration		122			3.43
	1	30	0.25	0.25	0.25
	Unanswered (blank/zero)	29	0.24	0.24	
	2	23	0.19	0.19	0.38
	3	20	0.16	0.16	0.49
	5	5	0.04	0.04	0.20
	4	5	0.04	0.04	0.16
	6	3	0.02	0.02	0.15
	8	2	0.02	0.02	0.13
	120	1	0.01	0.01	0.98
	50	1	0.01	0.01	0.41
	15	1	0.01	0.01	0.12
	12	1	0.01	0.01	0.10
	7	1	0.01	0.01	0.06
31b Tax Militia					0.62
	Unanswered (blank/zero)	87	0.71	0.71	
	1	17	0.14	0.14	0.14
	2	9	0.07	0.07	0.15

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
	3	4	0.03	0.03
	4	2	0.02	0.02
	10	1	0.01	0.01
	6	1	0.01	0.01
	5	1	0.01	0.01

31c Fire Department

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Unanswered (blank/zero)	65	0.53	0.53	1.35
1	20	0.16	0.16	0.16
2	18	0.15	0.15	0.30
4	5	0.04	0.04	0.16
3	5	0.04	0.04	0.12
5	3	0.02	0.02	0.12
12	2	0.02	0.02	0.20
10	2	0.02	0.02	0.16
8	1	0.01	0.01	0.07
7	1	0.01	0.01	0.06

31d Police Department

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Unanswered (blank/zero)	105	0.86	0.86	0.67
1	6	0.05	0.05	0.05
2	4	0.03	0.03	0.07
4	2	0.02	0.02	0.07
24	1	0.01	0.01	0.20
14	1	0.01	0.01	0.11
10	1	0.01	0.01	0.08
7	1	0.01	0.01	0.06
5	1	0.01	0.01	0.04

31e Sanitary/Epidemic Station

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Unanswered (blank/zero)	75	0.61	0.61	0.84
1	23	0.19	0.19	0.19
2	13	0.11	0.11	0.21
4	4	0.03	0.03	0.13
3	4	0.03	0.03	0.10
12	1	0.01	0.01	0.10
9	1	0.01	0.01	0.07
5	1	0.01	0.01	0.04

31f Ministry of Environment

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Unanswered (blank/zero)	110	0.90	0.90	0.24
1	9	0.07	0.07	0.07
14	1	0.01	0.01	0.11
4	1	0.01	0.01	0.03
2	1	0.01	0.01	0.02

31g Committee on Standardization

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Unanswered (blank/zero)	111	0.91	0.91	0.19
1	9	0.07	0.07	0.07
12	1	0.01	0.01	0.10
2	1	0.01	0.01	0.02

31h Consumer Protection Committee

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Unanswered (blank/zero)	95	0.78	0.78	0.33

		Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
		1	20	0.16	0.16
		3	3	0.02	0.02
		2	3	0.02	0.02
		5	1	0.01	0.01
31i Anti-monopoly Committee					0.02
	Unanswered (blank/zero)	119	0.98	0.98	
		1	3	0.02	0.02
31j Department of Architecture					0.06
	Unanswered (blank/zero)	117	0.96	0.96	
		1	3	0.02	0.02
		2	2	0.02	0.02
31k Customs					0.05
	Unanswered (blank/zero)	117	0.96	0.96	
		1	4	0.03	0.03
		2	1	0.01	0.01
31l State Control and Revision Service					0.43
	Unanswered (blank/zero)	90	0.74	0.74	
		1	17	0.14	0.14
		2	11	0.09	0.09
		3	3	0.02	0.02
		4	1	0.01	0.01
31m State Treasury					0.02
	Unanswered (blank/zero)	119	0.98	0.98	
		1	3	0.02	0.02
31n Department for fight against organized criminals					0.12
	Unanswered (blank/zero)	112	0.92	0.92	
		1	6	0.05	0.05
		2	3	0.02	0.02
		3	1	0.01	0.01
31o Security Service					0.04
	Unanswered (blank/zero)	118	0.97	0.97	
		1	3	0.02	0.02
		2	1	0.01	0.01
31p Trade Department					0.16
	Unanswered (blank/zero)	113	0.93	0.93	
		1	4	0.03	0.03
		2	3	0.02	0.02
		6	1	0.01	0.01
		3	1	0.01	0.01
31q Other					0.29
	Unanswered (blank/zero)	107	0.88	0.88	
		1	6	0.05	0.05
		2	4	0.03	0.03
		3	3	0.02	0.02
		7	1	0.01	0.01

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
	5	1	0.01	0.01

31r Other (specify)

Unanswered (blank/zero)	109	0.89	0.89
Pension fund	3	0.02	0.02
bank	2	0.02	0.02
prosecutor's office	1	0.01	0.01
Pension Fund, Statistics Dept.	1	0.01	0.01
Pension Fund, Social Insurance	1	0.01	0.01
Pension Fund, Employment Fud	1	0.01	0.01
Pension Fund, Bank, Employment Fund	1	0.01	0.01
Pension foundation, Public inspection on pharmacy products quality	1	0.01	0.01
Ministry of Finance	1	0.01	0.01
Energy saving Inspectorate	1	0.01	0.01

32 How many person-days has your company staff spent during 2000 to deal with inspectors and consequences of inspections (estimates acceptable)?

101 1.00 0.83 25.71

Unanswered (blank/zero)	21	0.21	0.17	
30	15	0.15	0.12	4.46
20	10	0.10	0.08	1.98
10	9	0.09	0.07	0.89
3	9	0.09	0.07	0.27
2	6	0.06	0.05	0.12
15	4	0.04	0.03	0.59
7	4	0.04	0.03	0.28
0	4	0.04	0.03	0.00
40	3	0.03	0.02	1.19
25	3	0.03	0.02	0.74
12	3	0.03	0.02	0.36
9	3	0.03	0.02	0.27
8	3	0.03	0.02	0.24
1	3	0.03	0.02	0.03
60	2	0.02	0.02	1.19
45	2	0.02	0.02	0.89
27	2	0.02	0.02	0.53
17	2	0.02	0.02	0.34
5	2	0.02	0.02	0.10
300	1	0.01	0.01	2.97
200	1	0.01	0.01	1.98
120	1	0.01	0.01	1.19
105	1	0.01	0.01	1.04
100	1	0.01	0.01	0.99
85	1	0.01	0.01	0.84
70	1	0.01	0.01	0.69
46	1	0.01	0.01	0.46
43	1	0.01	0.01	0.43
28	1	0.01	0.01	0.28
24	1	0.01	0.01	0.24
16	1	0.01	0.01	0.16

33 What is the estimated total amount, as a percentage of your annual turnover, of fines imposed on your company and various other payments incurred by your company as a result of these inspections?

82 1.00 0.67 6.79

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Unanswered (blank/zero)	40	0.49	0.33	
0	16	0.20	0.13	0.00
5	14	0.17	0.11	0.85
3	10	0.12	0.08	0.37
1	10	0.12	0.08	0.12
10	7	0.09	0.06	0.85
2	5	0.06	0.04	0.12
6	4	0.05	0.03	0.29
20	3	0.04	0.02	0.73
15	3	0.04	0.02	0.55
12	3	0.04	0.02	0.44
4	3	0.04	0.02	0.15
85	1	0.01	0.01	1.04
50	1	0.01	0.01	0.61
30	1	0.01	0.01	0.37
25	1	0.01	0.01	0.30

34 Has your company ever been asked for any additional payments over those established by legislation for permits, licensing, inspections, etc.? **112** **1.00** **0.92**

Never	39	0.35	0.32
Sometimes	38	0.34	0.31
Frequently	24	0.21	0.20
Always	11	0.10	0.09
Unanswered	10	0.09	0.08

35 Has the overall situation with inspections improved for your company in 2000 comparing with 1999? **NA** **NA** **NA**

Yes	36	NA	0.30
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TAXES AND FEES

36 How many taxes and fees does your company pay? **26** **1.00** **0.21** **7.65**

Unanswered (blank/zero)	96	3.69	0.79	
10	8	0.31	0.07	3.08
1	4	0.15	0.03	0.15
2	3	0.12	0.02	0.23
7	2	0.08	0.02	0.54
4	2	0.08	0.02	0.31
90000	1	0.04	0.01	
30	1	0.04	0.01	1.15
20	1	0.04	0.01	0.77
14	1	0.04	0.01	0.54
9	1	0.04	0.01	0.35
8	1	0.04	0.01	0.31
6	1	0.04	0.01	0.23

37 Does your company participate in the simplified tax system? **115** **1.00** **0.94**

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
No	63	0.55	0.52	
Yes, it pays 10% of its turnover, which includes VAT	24	0.21	0.20	
Yes, other	19	0.17	0.16	
Yes, it pays 6% of its turnover with VAT paid separately	9	0.08	0.07	
Unanswered/blank	7	0.06	0.06	

Other (specify)

Unanswered/blank	109	0.95	0.89
flat-rate tax	5	0.04	0.04
fixed patent	4	0.03	0.03
general tax system	1	0.01	0.01
fixed tax for agricultural manufactures	1	0.01	0.01
fixed patent, marketing tax	1	0.01	0.01
fixed agricultural tax	1	0.01	0.01

38 What percentage of turnover does your company's tax and fee payments represent?

112 1.00 0.92

0	3	0.03	0.02	0.03
1-10%	28	0.25	0.23	0.28
11-20%	23	0.21	0.19	0.48
21-30%	15	0.13	0.12	0.62
31-40%	13	0.12	0.11	0.73
41-50%	12	0.11	0.10	0.84
51-60%	6	0.05	0.05	0.89
More than 60%	12	0.11	0.10	1.00
Unanswered	10	0.09	0.08	1.09

39 Are any of the taxes your company pays particularly burdensome (check all that apply)?

111 1.00 0.91

VAT	58	0.52	0.48
Payroll taxes	47	0.42	0.39
Profit tax	39	0.35	0.32
Income tax	21	0.19	0.17
None	14	0.13	0.11
Others	7	0.06	0.06
State funds	5	0.05	0.04
Excise taxes	3	0.03	0.02

Others (specify)

Unanswered/blank	117	1.05	0.96
Pension Fund, flat-rate tax	1	0.01	0.01
Pension Fund	1	0.01	0.01
pencion fund	1	0.01	0.01
land tax	1	0.01	0.01
10% turnover	1	0.01	0.01

40 Has the overall taxation situation for your company improved in 2000 compared to 1999?

114 1.00 0.93

		Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
41c individual consumers					48.92
	Unanswered (blank/zero)	26	0.21	0.21	
		100	0.21	0.21	21.31
		90	0.07	0.07	5.90
		80	0.07	0.07	5.25
		50	0.07	0.07	3.28
		30	0.05	0.05	1.48
		10	0.05	0.05	0.49
		70	0.03	0.03	2.30
		25	0.03	0.03	0.82
		20	0.03	0.03	0.66
		60	0.02	0.02	1.48
		95	0.02	0.02	1.56
		65	0.02	0.02	1.07
		40	0.02	0.02	0.66
		15	0.02	0.02	0.25
		5	0.02	0.02	0.08
		1	0.02	0.02	0.02
		99	0.01	0.01	0.81
		98	0.01	0.01	0.80
		45	0.01	0.01	0.37
		35	0.01	0.01	0.29
		4	0.01	0.01	0.03
		3	0.01	0.01	0.02
		2	0.01	0.01	0.02
42 During the past year, how many companies (not individuals) have been your clients?		106	1.00	0.87	
	More than 15	40	0.38	0.33	
	5-10	24	0.23	0.20	
	1-5	20	0.19	0.16	
	Unanswered (blank/zero)	16	0.15	0.13	
	10-15	11	0.10	0.09	
	0	11	0.10	0.09	
43 What is the largest percentage of production (goods/services) consumed by a single one of these clients?		98	1.00	0.80	
	1-10%	32	0.33	0.26	
	10-20%	25	0.26	0.20	
	Unanswered (blank/zero)	24	0.24		
	More than 50%	15	0.15	0.12	
	20-30%	14	0.14	0.11	
	40-50%	6	0.06	0.05	
	30-40%	6	0.06	0.05	
44 Please indicate the approximate percentage of your production (goods/services) that is consumed by clients in the following regions:		112	1.00	0.92	
44a to clients in Kharkiv city					59.59
	Unanswered (blank/zero)	27	0.24	0.22	
		100	0.21	0.20	21.43
		80	0.13	0.11	10.00

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses	
	90	10	0.09	0.08	8.04
	50	10	0.09	0.08	4.46
	70	6	0.05	0.05	3.75
	40	5	0.04	0.04	1.79
	60	4	0.04	0.03	2.14
	95	3	0.03	0.02	2.54
	10	3	0.03	0.02	0.27
	5	3	0.03	0.02	0.13
	75	2	0.02	0.02	1.34
	25	2	0.02	0.02	0.45
	20	2	0.02	0.02	0.36
	99	1	0.01	0.01	0.88
	86	1	0.01	0.01	0.77
	45	1	0.01	0.01	0.40
	43	1	0.01	0.01	0.38
	30	1	0.01	0.01	0.27
	15	1	0.01	0.01	0.13
	6	1	0.01	0.01	0.05

44b to clients in the rest of Kharkiv oblast (excluding the city)

23.88

Unanswered (blank/zero)	54	0.48	0.44		
	10	14	0.13	0.11	1.25
	100	11	0.10	0.09	9.82
	20	9	0.08	0.07	1.61
	30	7	0.06	0.06	1.88
	80	6	0.05	0.05	4.29
	5	5	0.04	0.04	0.22
	50	4	0.04	0.03	1.79
	15	4	0.04	0.03	0.54
	40	2	0.02	0.02	0.71
	60	1	0.01	0.01	0.54
	57	1	0.01	0.01	0.51
	45	1	0.01	0.01	0.40
	25	1	0.01	0.01	0.22
	8	1	0.01	0.01	0.07
	4	1	0.01	0.01	0.04

44c to clients in the rest of Ukraine (excluding Kharkiv oblast)

13.07

Unanswered (blank/zero)	80	0.71	0.66		
	20	9	0.08	0.07	1.61
	10	7	0.06	0.06	0.63
	50	4	0.04	0.03	1.79
	90	3	0.03	0.02	2.41
	40	3	0.03	0.02	1.07
	5	3	0.03	0.02	0.13
	60	2	0.02	0.02	1.07
	30	2	0.02	0.02	0.54
	25	2	0.02	0.02	0.45
	80	1	0.01	0.01	0.71
	79	1	0.01	0.01	0.71
	75	1	0.01	0.01	0.67
	70	1	0.01	0.01	0.63
	59	1	0.01	0.01	0.53
	15	1	0.01	0.01	0.13

		Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
		1	1	0.01	0.01
44d	to clients in Russia and other NIS countries				1.88
	Unanswered (blank/zero)	113	1.01	0.93	
		20	3	0.03	0.54
		10	2	0.02	0.18
		70	1	0.01	0.63
		40	1	0.01	0.36
		15	1	0.01	0.13
		6	1	0.01	0.05
44e	to clients in other countries				0.27
	Unanswered (blank/zero)	119	1.06	0.98	
		10	3	0.03	0.27
44f	Other countries (list)				
	Unanswered/blank	121	1.08	0.99	
	India	1	0.01	0.01	

SUPPLIERS

45	Please indicate the approximate percentage of your inputs that were provided by suppliers of the following types:	102	1.00	0.84	
45a	government, government agencies and budgetary organizations				1.32
	Unanswered (blank/zero)	118	1.16	0.97	
		5	1	0.01	0.05
		30	1	0.01	0.29
		100	1	0.01	0.98
		0	1	0.01	0.00
45b	companies				73.29
	Unanswered (blank/zero)	34	0.33	0.28	
		100	52	0.51	50.98
		80	8	0.08	6.27
		50	6	0.06	2.94
		90	5	0.05	4.41
		60	3	0.03	1.76
		97	2	0.02	1.90
		70	2	0.02	1.37
		20	2	0.02	0.39
		10	2	0.02	0.20
		95	1	0.01	0.93
		85	1	0.01	0.83
		55	1	0.01	0.54
		45	1	0.01	0.44
		30	1	0.01	0.29
		2	1	0.01	0.02
45c	individuals				24.65
	Unanswered (blank/zero)	74	0.73	0.61	
		100	11	0.11	10.78
		20	7	0.07	1.37
		50	6	0.06	2.94

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
	10	5	0.05	0.04
	90	4	0.04	0.03
	40	3	0.03	0.02
	15	3	0.03	0.02
	80	2	0.02	0.02
	30	2	0.02	0.02
	3	2	0.02	0.02
	98	1	0.01	0.01
	70	1	0.01	0.01
	5	1	0.01	0.01

46 During the past year, how many suppliers has your company had?

120 1.00 0.98

More than 15	34	0.28	0.28
1-5	33	0.28	0.27
Unanswered (blank/zero)	20	0.17	0.16
5-10	17	0.14	0.14
10-15	15	0.13	0.12
0	3	0.03	0.02

47 What is the largest percentage of inputs supplied by a single one of these suppliers?

197 1.00 1.61

10-20%	26	0.13	0.21
Unanswered (blank/zero)	25	0.13	0.20
1-10%	19	0.10	0.16
More than 50%	17	0.09	0.14
20-30%	17	0.09	0.14
30-40%	13	0.07	0.11
40-50%	5	0.03	0.04

48 Please indicate the approximate percentage of your company's inputs that is received from suppliers in the following regions:

99 1.00 0.81

48a from suppliers in Kharkiv city

49.84

Unanswered (blank/zero)	42	0.42	0.34	
100	19	0.19	0.16	19.19
80	13	0.13	0.11	10.51
50	10	0.10	0.08	5.05
10	8	0.08	0.07	0.81
20	5	0.05	0.04	1.01
90	4	0.04	0.03	3.64
70	4	0.04	0.03	2.83
30	4	0.04	0.03	1.21
95	3	0.03	0.02	2.88
60	3	0.03	0.02	1.82
5	3	0.03	0.02	0.15
40	1	0.01	0.01	0.40
17	1	0.01	0.01	0.17
15	1	0.01	0.01	0.15
2	1	0.01	0.01	0.02

		Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
48b	from suppliers in the rest of Kharkiv oblast (excluding the city)				19.70
	Unanswered (blank/zero)	76	0.77	0.62	
	20	10	0.10	0.08	2.02
	100	8	0.08	0.07	8.08
	10	8	0.08	0.07	0.81
	50	5	0.05	0.04	2.53
	30	4	0.04	0.03	1.21
	90	2	0.02	0.02	1.82
	70	2	0.02	0.02	1.41
	40	2	0.02	0.02	0.81
	60	1	0.01	0.01	0.61
	25	1	0.01	0.01	0.25
	7	1	0.01	0.01	0.07
	5	1	0.01	0.01	0.05
	3	1	0.01	0.01	0.03
48c	from suppliers in the rest of Ukraine (excluding Kharkiv oblast)				17.52
	Unanswered (blank/zero)	82	0.83	0.67	
	20	12	0.12	0.10	2.42
	50	5	0.05	0.04	2.53
	100	3	0.03	0.02	3.03
	10	3	0.03	0.02	0.30
	95	2	0.02	0.02	1.92
	90	2	0.02	0.02	1.82
	80	2	0.02	0.02	1.62
	40	2	0.02	0.02	0.81
	30	2	0.02	0.02	0.61
	15	2	0.02	0.02	0.30
	5	2	0.02	0.02	0.10
	75	1	0.01	0.01	0.76
	70	1	0.01	0.01	0.71
	59	1	0.01	0.01	0.60
48d	from suppliers in Russia and other NIS countries				10.46
	Unanswered (blank/zero)	100	1.01	0.82	
	80	3	0.03	0.02	2.42
	10	3	0.03	0.02	0.30
	90	2	0.02	0.02	1.82
	70	2	0.02	0.02	1.41
	50	2	0.02	0.02	1.01
	30	2	0.02	0.02	0.61
	20	2	0.02	0.02	0.40
	5	2	0.02	0.02	0.10
	100	1	0.01	0.01	1.01
	95	1	0.01	0.01	0.96
	40	1	0.01	0.01	0.40
	1	1	0.01	0.01	0.01
48e	from suppliers in other countries				1.93
	Unanswered (blank/zero)	115	1.16	0.94	
	10	2	0.02	0.02	0.20
	3	2	0.02	0.02	0.06
	75	1	0.01	0.01	0.76
	70	1	0.01	0.01	0.71

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
	20	1	0.01	0.01

48f Other countries (list)

Unanswered/blank	120	1.21	0.98
Poland	2	0.02	0.02

PERFORMANCE

49a What was the most significant problem facing your company in 2000?

121 1.00 0.99

2. Existing tax system	35	28.93%	0.29
3. Frequently changing legislation	23	19.01%	0.19
9. Lack of working capital	18	14.88%	0.15
1. Administrative controls by public agencies	12	9.92%	0.10
13. Low market demand for company's goods/services	11	9.09%	0.09
8. Obtaining credit (availability / interest rates)	8	6.61%	0.07
16. Pressure from corrupted officials and criminal structures	5	4.13%	0.04
10. Shortages of raw materials / inputs	2	1.65%	0.02
Unanswered	1	0.01	0.01
6. Inflation	1	0.01	0.01
5. Inadequate equipment	1	0.01	0.01
4. Complexity of book-keeping and reporting	1	0.01	0.01
17. Other (name):	1	0.01	0.01
15. Lack of business experience and knowledge	1	0.01	0.01
12. Lack of demand for goods and services produced	1	0.01	0.01
11. Absence of a premise	1	0.01	0.01
7. Labor availability and cost	0	0.00	0.00
14. Lack of business information	0	0.00	0.00

49b Other (name)

Unanswered/blank	117	0.97	0.96
lack of working capital	2	0.02	0.02
Lack of market demand	1	0.01	0.01
inflation	1	0.01	0.01
Energy Saving Department (regional)	1	0.01	0.01

49c What was the second most significant problem facing your company in 2000?

114 1.00 0.93

3. Frequently changing legislation	21	0.18	0.17
2. Existing tax system	19	0.17	0.16
9. Lack of working capital	15	0.13	0.12
8. Obtaining credit (availability / interest rates)	11	0.10	0.09
1. Administrative controls by public agencies	11	0.10	0.09
Unanswered	8	0.07	0.07
16. Pressure from corrupted officials and criminal structures	8	0.07	0.07
4. Complexity of book-keeping and reporting	7	0.06	0.06
6. Inflation	5	0.04	0.04
5. Inadequate equipment	4	0.04	0.03
12. Lack of demand for goods and services produced	4	0.04	0.03
15. Lack of business experience and knowledge	2	0.02	0.02
11. Absence of a premise	2	0.02	0.02
7. Labor availability and cost	1	0.01	0.01

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
17. Other (name):	1	0.01	0.01	
14. Lack of business information	1	0.01	0.01	
13. Low market demand for company's goods/services	1	0.01	0.01	
10. Shortages of raw materials / inputs	1	0.01	0.01	
49d Other (name)				
Unanswered/blank	119	1.04	0.98	
lack of working capital	1	0.01	0.01	
low buying ability	1	0.01	0.01	
pressure from corrupted officials and criminal structures	1	0.01	0.01	
50 Among administrative controls by public agencies, mark the most destructive for your business:	114	1.00	0.93	
inspections	59	51.75%	0.48	
sanctions	23	20.18%	0.19	
permits	20	17.54%	0.16	
Unanswered/blank	8	7.02%	0.07	
registration	5	4.39%	0.04	
licenses	5	4.39%	0.04	
other	2	1.75%	0.02	
Other (name)				
Unanswered/blank	100	0.88	0.82	
inspections	5	0.04	0.04	
sanctions	4	0.04	0.03	
licenses, inspections	2	0.02	0.02	
licenses	2	0.02	0.02	
inspections, sanctions	2	0.02	0.02	
sanction	1	0.01	0.01	
permits, licenses, inspections	1	0.01	0.01	
permits, inspections	1	0.01	0.01	
permits	1	0.01	0.01	
licenses, sanctions, inspections	1	0.01	0.01	
licenses, inspections	1	0.01	0.01	
all the system	1	0.01	0.01	
51 Do you think your company will increase production of its current goods and services in the coming year?				
	NA	NA	NA	
Yes	82	NA	0.67	
Unanswered (blank/no)	40	NA	0.33	
52 Do you think your company will expand the types of goods and services it produces in the coming year?				
	NA	NA	NA	
Yes	86	NA	0.70	
Unanswered (blank/no)	36	NA	0.30	
53 Do you think your company's revenues will increase in the coming year?				
	NA	NA	NA	

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Yes	80	NA	0.66	
Unanswered (blank/no)	42	NA	0.34	

IMAGINARY COMPANY

54 Do you have such a business in mind? NA NA NA

Yes	97	NA	0.80
Unanswered (blank/no)	25	NA	0.20

55 How many employees are in this business? 94 1.00 0.77

6-10	30	0.32	0.25
1-5	29	0.31	0.24
Unanswered (blank/zero)	28	0.30	0.23
11-50	27	0.29	0.22
51-250	6	0.06	0.05
Just one	2	0.02	0.02
More than 250	0	0.00	0.00

56 ##### 96 1.00 0.79

Yes	90	0.94	0.74
Unanswered (blank/no)	26	0.27	0.21
No	4	0.04	0.03
Refused	2	0.02	0.02

57 Is the business that you have in mind registered? NA NA NA

Yes	87	NA	0.71
Unanswered (blank/no)	35	NA	0.29

58 What do you think is the percentage of total taxes and fees that this business actually pays? 86 1.00 0.70 40.27

Unanswered (blank/zero)	36	0.42	0.30	
50	17	0.20	0.14	9.88
30	15	0.17	0.12	5.23
20	9	0.10	0.07	2.09
10	8	0.09	0.07	0.93
60	6	0.07	0.05	4.19
5	4	0.05	0.03	0.23
80	4	0.05	0.03	3.72
70	4	0.05	0.03	3.26
25	4	0.05	0.03	1.16
90	3	0.03	0.02	3.14
15	3	0.03	0.02	0.52
40	2	0.02	0.02	0.93

	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses	
	100	2	0.02	0.02	2.33
	13	1	0.01	0.01	0.15
	85	1	0.01	0.01	0.99
	98	1	0.01	0.01	1.14
	0	1	0.01	0.01	0.00
	32	1	0.01	0.01	0.37

58rev For those companies that provided estimates for question 62, on unofficial payments to public officials, these are the answers for number 58:

46 1.00 0.38 35.76

Unanswered/blank	2	0.04	0.02	
5	3	0.07	0.02	0.33
10	4	0.09	0.03	0.87
13	1	0.02	0.01	0.28
15	3	0.07	0.02	0.98
20	2	0.04	0.02	0.87
25	2	0.04	0.02	1.09
30	8	0.17	0.07	5.22
32	1	0.02	0.01	0.70
40	1	0.02	0.01	0.87
50	9	0.20	0.07	9.78
60	6	0.13	0.05	7.83
70	2	0.04	0.02	3.04
80	1	0.02	0.01	1.74
100	1	0.02	0.01	2.17

59 Which methods does this business use to evade taxation (check all that apply)?

96 1.00 0.79

Gets part of its revenues in cash	54	0.56	0.44
Under-reports production in its financial reports	46	0.48	0.38
Employs part of people informally, without paying social taxes	37	0.39	0.30
No to all (all blank)	26	0.27	0.21
Deducts expenses for the items that envisage a smaller tax rate	20	0.21	0.16
Hard to say/Don't know	13	0.14	0.11
Don't want to answer	10	0.10	0.08
Registers revenues with people who have privileges in taxation	9	0.09	0.07
Registers firm in an off-shore zone abroad or in a free economic zone	3	0.03	0.02
Gets part of its revenues to an unregistered account in a foreign bank	1	0.01	0.01

60 In such conditions that are faced by the imaginary company, is it possible for this business to operate without establishing informal relations with authorities?

96 1.00 0.79

No	69	0.72	0.57
Unanswered (blank/no)	26	0.27	0.21
Yes	21	0.22	0.17
Hard to say/Don't Know	6	0.06	0.05

61 With which agency's officials are informal relations most important?

93 1.00 0.76

10. Tax inspection	31	0.33	0.25
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	Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
Unanswered	29	0.31	0.24	
6. Oblast authorities	17	0.18	0.14	
7. Municipal authorities	17	0.18	0.14	
8. Rayon authorities, local self-government	10	0.11	0.08	
1. Ministries, other central state executive agencies	6	0.06	0.05	
14. HS/DK	6	0.06	0.05	
15. Refused to answer	2	0.02	0.02	
2. President's administration	1	0.01	0.01	
4. State-owned or semi-state-owned banks	1	0.01	0.01	
9. Customs	1	0.01	0.01	
11. Prosecutor's office	1	0.01	0.01	
3. Verkhovna rada	0	0.00	0.00	
5. State television	0	0.00	0.00	
12. Police	0	0.00	0.00	
13. Other	0	0.00	0.00	

62 Does the business that you have in mind have to give part of its profits to representatives of any public agencies? If yes, what percentage of its profit? 46 1.00 0.38 16.17

Unanswered (blank/no/zero)	76	1.65	0.62	
10	16	0.35	0.13	3.48
20	7	0.15	0.06	3.04
5	6	0.13	0.05	0.65
0	6	0.13	0.05	0.00
30	3	0.07	0.02	1.96
50	2	0.04	0.02	2.17
40	2	0.04	0.02	1.74
2	2	0.04	0.02	0.09
80	1	0.02	0.01	1.74
60	1	0.02	0.01	1.30

62b Hard to say/Don't know 42 1.00 0.34

63 Does this business have to give part of its profits to representatives of unofficial force groups (racket, etc.)? If yes, what percentage? 53 1.00 0.43 4.23

Unanswered (blank/no/zero)	69	1.30	0.57	
0	36	0.68	0.30	0.00
10	7	0.13	0.06	1.32
20	4	0.08	0.03	1.51
30	2	0.04	0.02	1.13
5	2	0.04	0.02	0.19
3	1	0.02	0.01	0.06
1	1	0.02	0.01	0.02

63b Hard to say/Don't know 35 1.00 0.29

64 What would be a rational tax amount for a business like this? 75 1.00 0.61 16.99

Unanswered (blank/zero)	47	0.63	0.39	
10	24	0.32	0.20	3.20

		Number of Active Responses	Proportion of Firms that Actively Responded to this Question	Proportion of Firms in the Survey (x/122)	Weighted average of active responses
	25	12	0.16	0.10	4.00
	20	11	0.15	0.09	2.93
	15	9	0.12	0.07	1.80
	30	8	0.11	0.07	3.20
	5	3	0.04	0.02	0.20
	8	2	0.03	0.02	0.21
	6	2	0.03	0.02	0.16
	3	2	0.03	0.02	0.08
	50	1	0.01	0.01	0.67
	40	1	0.01	0.01	0.53

64b Hard to say/Don't know

19

1.00

0.16